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## IASB<sup>®</sup> meeting

Date	<b>January 2025</b>
Project	<b>Business Combinations—Disclosures, Goodwill and Impairment</b>
Topic	<b>Transition</b>
Contacts	Mislav Ljubicic (mislav.ljubicic@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

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## Purpose and structure of this paper

1. As Agenda Paper 18 explains, this paper provides the International Accounting Standards Board (IASB) with a summary of feedback on the proposed transition requirements and proposed requirements for first-time adopters<sup>1</sup> in the Exposure Draft [\*Business Combinations—Disclosures, Goodwill and Impairment\*](#) (Exposure Draft).
2. The paper contains:
  - (a) background (paragraphs 3–4);
  - (b) key messages (paragraph 5–6);
  - (c) feedback summary (paragraphs 7–20); and
  - (d) question for the IASB.

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<sup>1</sup> IFRS 1 *First-time Adoption of International Financial Reporting Standards* defines a first-time adopter as an entity that presents its first IFRS financial statements.

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## Background

3. The Exposure Draft proposed:
  - (a) for IFRS 3 *Business Combinations*:
    - (i) to require entities already applying IFRS Accounting Standards to apply the amendments prospectively to a business combination on or after the effective date, with earlier application permitted; and
    - (ii) no transition relief for first-time adopters (FTAs);
  - (b) for IAS 36 *Impairment of Assets*:
    - (i) to require entities already applying IFRS Accounting Standards to apply the amendments prospectively to impairment tests performed on or after the effective date, with earlier application permitted; and
    - (ii) no transition relief for FTAs;
  - (c) for IFRS 19 *Subsidiaries without Public Accountability: Disclosures*:
    - (i) to require entities already applying IFRS 19 to apply the amendments prospectively—that is, to a business combination on or after the effective date, with earlier application permitted; and
    - (ii) no transition relief for FTAs.
4. Paragraphs BC257–BC263 of the [Basis for Conclusions](#) on the Exposure Draft (Basis for Conclusions) explain the IASB’s rationale for the proposals.

## Key messages

5. Most respondents agree with the proposed transition requirements for IFRS 3, IAS 36 and IFRS 19 that would apply to entities already applying IFRS Accounting Standards. Most of these respondents say the costs of retrospective application would outweigh the benefits. Some respondents disagree, particularly with the proposed transition requirements for IAS 36 and suggest allowing or requiring an entity to

perform an impairment test at the transition date with any resulting impairment being recognised in opening equity.

6. Most respondents agree with not providing specific transition relief for FTAs. However, some respondents suggest providing specific transition relief for FTAs.

## Feedback summary

7. This section summarises feedback on:
  - (a) transition requirements for entities already applying IFRS Accounting Standards (paragraphs 8–12);
  - (b) transition requirements for first-time adopters (paragraphs 13–19); and
  - (c) early application (paragraph 20).

### ***Entities already applying IFRS Accounting Standards***

8. Most respondents agree with the proposed transition requirements for IFRS 3, IAS 36 and IFRS 19 for reasons consistent with those considered by the IASB.
9. A few individuals and one accounting-standard setter disagree more generally with the proposed transition requirements and say restatement of comparative information is important for users and would enable them to make informed decisions. They say retrospective information would provide valuable insights to users' understanding of the industry and the business combination, ultimately influencing stakeholder investment decisions.
10. Some stakeholders disagree with requiring an entity to apply the proposed amendments to IAS 36 prospectively to impairment tests performed on or after the effective date. These respondents suggest allowing or requiring an entity to perform an impairment test at the date of transition with any resulting impairment being recognised in opening equity. They say this approach would help users differentiate between any impairment losses that result from the application of the amendments to

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IAS 36 and impairment events that arise in the year of transition. This would provide better transparency for users and avoid potential confusion about the source of impairment adjustments.

11. A few preparers, while supporting the proposed transition requirements to IAS 36, highlight challenges in applying the proposed amendments to IAS 36, particularly the proposed amendments to the requirements on allocating goodwill to cash-generating units (see Agenda Paper 18C), to historic goodwill balances. They say revisiting the allocation of historic goodwill balances to apply the proposed requirements could be challenging, particularly if an acquired business that resulted in the recognition of goodwill has undergone significant restructurings over the years. They suggest ‘grandfathering’ the allocation of goodwill acquired prior to the effective date of the amendments.
12. Respondents also ask for clarifications on how to apply the proposed transition requirements for the proposed amendments to IAS 36. Specifically:
  - (a) some respondents ask whether an entity should perform an impairment test at the time it first applies the amendments.
  - (b) one preparer suggests specifying that any changes to the allocation of goodwill to cash generating units resulting from the proposed amendments would apply only from the first annual impairment test following the amendments’ effective date.
  - (c) a few respondents comment on the interaction of the proposed transition requirements with interim reporting. One standard-setter says requiring entities to apply the amendments on or after the effective date as part of the entity’s annual impairment test leaves unclear how an entity would apply the proposals when preparing quarterly or semi-annual financial reports (particularly if the annual test is performed after the filing of the quarterly or semi-annual financial reports). One accounting firm says delaying the recognition of any impairment loss that results from applying the proposed amendments until the

entity preforms its annual impairment test would diminish the relevance of financial information communicated in interim financial reports.

### ***First-time adopters***

13. Most respondents agree with the IASB's proposal to not provide transition relief for FTAs. We have grouped feedback from respondents into:
- (a) general feedback (paragraphs 14–15);
  - (b) feedback on IFRS 3 (paragraphs 16–18); and
  - (c) feedback on IAS 36 (paragraph 19).

### ***General feedback***

14. Many respondents agree with the IASB's decision to not provide relief for FTAs for reasons explained the Basis for Conclusions—for example, that FTAs are expected to plan their transition to IFRS Accounting Standards with enough time.
15. Some respondents that suggest providing specific transition relief for FTAs for the proposed amendments to IFRS 3 (see paragraphs 16–18 below) or the proposed amendments to IAS 36 (see paragraph 19 below) say:
- (a) retrospective application could be impractical, challenging and costly; and
  - (b) without relief, FTAs would be subject to more stringent requirements than entities already applying IFRS Accounting Standards, including one accounting firm saying this would be conceptually incomprehensible.

### ***Feedback on IFRS 3***

16. Some respondents disagree with the IASB's decision to not provide transition relief for FTAs in respect of the proposed amendments to IFRS 3 and suggest exempting an FTA from retrospective application of the proposed requirements for an entity to disclose information about the performance of a business combination. One

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accounting firm says it might be challenging for entities to gather the necessary information to:

- (a) determine whether a prior business combination was strategic at the acquisition date; and
  - (b) to provide information required by those disclosure requirements if management has not been tracking performance of a past business combination that would meet the thresholds for a strategic business combination.
17. One accounting body says IFRS 1 allows FTAs to elect not to apply IFRS 3 retrospectively to past business combinations, but it is unclear if this exemption would apply to the proposed disclosure requirements.
  18. One investor group says transition relief for FTAs is unnecessary because, applying the proposals, FTAs would only be required to prepare and maintain information about business combinations that occur on or after the amendments' effective date.

#### *Feedback on IAS 36*

19. Some respondents disagree with the IASB's decision to not provide transition relief for FTAs in respect of the proposed amendments to IAS 36. These respondents suggest allowing or requiring an FTA to perform an impairment test at the date of transition and recognise any resulting adjustments in opening retained earnings without having to adjust prior periods.

#### *Early application*

20. Respondents commenting on early application, generally support the IASB's decision to allow an entity to apply the proposed amendments to IFRS 3, IAS 36 and IFRS 19 earlier than the effective date. However, one accounting firm asks to clarify whether an entity would be able to apply the proposed amendments to one IFRS Accounting Standard (for example, IFRS 3) earlier than the effective date without also applying

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the proposed amendments to other IFRS Accounting Standards (for example, IAS 36) at the same time.

Question for the IASB

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