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Staff paper

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Topic	**Conceptual analysis**
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Introduction

1. As Agenda Paper 18 explains, this paper provides the International Accounting Standards Board (IASB) with our analysis of conceptual concerns raised by respondents disagreeing with requiring entities to disclose performance and expected synergy information in financial statements.

2. Based on our analysis in this paper, we think the conceptual concerns would not preclude the IASB from further analysing and redeliberating whether to require an entity to disclose performance and expected synergy information in financial statements. We are not, at this stage, providing any view on whether the IASB *should* require an entity to disclose this information in financial statements nor are we asking for any decisions on this matter. As paragraph 8 of Agenda Paper 18G for the IASB's January 2025 meeting notes:

> Making decisions on disclosure of performance and expected synergy information will, in our view, require consideration of the how [all] the concerns raised apply to each item of information and the circumstances in which the information would be disclosed. There is also significant interaction between various aspects of the proposals so, for example, it may be difficult to decide on

whether to require an entity to disclose a particular item of performance or expected synergy information without knowing the situations in which an entity would be exempted from disclosing that item of information.

Structure

3. This paper is structured as follows:

   (a) background (paragraphs 4–6);

   (b) feedback and staff analysis (paragraphs 7–37);

   (c) summary of staff views (paragraphs 38–39);

   (d) question for the IASB; and

   (e) Appendix A—Excerpts from the Basis for Conclusions

Background

4. The Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (Exposure Draft) proposed to require an entity to disclose information about:

   (a) the performance of strategic business combinations (performance information) including:

      (i) an entity's acquisition-date key objectives and related targets (KOTs); and

      (ii) the extent to which those KOTs are being met in the year of acquisition and in subsequent periods; and

   (b) quantitative information about synergies expected from combining the operations of an acquiree and an acquirer (expected synergy information), including a description of expected synergies by category and for each category of synergies:

(i) the estimated amounts or range of amounts of the expected synergies;

(ii) the estimated cost or range of costs to achieve these synergies; and

(iii) the time from which the benefits from the synergies are expected to start and how long they are expected to last.

5. In developing its proposals to require an entity to disclose performance and expected synergy information in financial statements, the IASB considered feedback suggesting that it should not require entities to disclose this information in financial statements. Stakeholders said this was because the information:

(a) does not directly relate to an entity's assets, liabilities, equity, income and expenses and disclosing this information would not meet the objective of financial statements as described in paragraphs 3.2–3.3 of the *Conceptual Framework for Financial Reporting* (Conceptual Framework); and

(b) includes forward-looking information, which closely resembles information typically included in management commentary and not in financial statements.

6. Paragraphs BC132–BC142 of the Basis for Conclusions to the Exposure Draft (Basis for Conclusions) explain the IASB's considerations of these concerns and why the IASB concluded that it can require performance and expected synergy information to be disclosed in financial statements. Appendix A to this paper reproduces these paragraphs for ease of reference.

Feedback and staff analysis

7. As paragraph 21 of Agenda Paper 18B to the IASB's December 2024 meeting explains, some respondents disagreed with the IASB's proposals for requiring an entity to disclose performance and expected synergy information from a conceptual perspective. Their reasons included:

(a) the information is forward-looking (paragraphs 8–18);

(b) the information is not directly related to an entity's financial statement elements (paragraphs 19–25);

(c) financial statements cannot provide all information users need (paragraphs 26–29);

(d) implications for other transactions (paragraphs 30–33); and

(e) management targets may be aspirational (paragraphs 34–37).

Forward-looking information

Feedback summary

8. Some respondents to the Exposure Draft said performance and expected synergy information should not be required in financial statements because the information is forward-looking. They said paragraph 3.6 of the Conceptual Framework says forward-looking information is typically not included in financial statements and they do not see a reason to make an exception in this case. As paragraphs 32–40 of Agenda Paper 18B for the IASB's December 2024 meeting explain, they said performance and expected synergy information could be commercially sensitive or potential litigation risks may arise from disclosing such information in financial statements.

Staff analysis

9. Applying the proposals (see paragraph 4), an entity would be required to disclose:

(a) in the year of acquisition:

(i) the acquisition-date KOTs; and

(ii) expected synergy information.

(b) in the year of acquisition and in each subsequent period, the extent to which the KOTs are being met (subsequent performance information).

10. Subsequent performance information comprises information about the actual performance and a statement of whether actual performance is meeting or has met the KOTs. This information is not forward-looking because it relates to actual performance. Accordingly, our analysis considers the information in paragraph 9(a) of this paper and:

    (a) whether that information is forward-looking (paragraphs 11–13); and

    (b) whether that information can be required in financial statements if it is forward-looking (paragraphs 14–17); and

    (c) implications of disclosing that information (paragraph 18).

Is the information forward-looking?

11. We understand the view of some IASB members, who, when developing the Exposure Draft, said the information in paragraph 9(a) of this paper is not forward-looking in the context of the Conceptual Framework (see paragraph BC139 of the Basis for Conclusions—reproduced in Appendix A). The information relates to assumptions made in determining the transaction price for the business combination—that is, assumptions for a historic transaction. These assumptions are fixed at the acquisition date and would not necessarily reflect management's expectations about the future performance of the business combination at the reporting date or when the financial statements are issued.

12. We also understand the view of some stakeholders and IASB members who view this information to be forward-looking because such information could provide information about future transactions or events.

13. We have not analysed further whether the information is forward-looking. Instead, paragraphs 14–17 consider whether the IASB can require the information in financial statements, even if that information is forward-looking.

If the information is forward-looking, can it be required in financial statements?

14. As paragraph 29 of [Agenda Paper 18A]() for the IASB's October 2021 meeting notes, it is not uncommon for IFRS Accounting Standards to require entities to disclose expected or possible future transactions or events based on information available at the reporting date (or in some cases at the date when the financial statements are authorised for issue). Examples include:

    (a) paragraph 21A of IFRS 7 *Financial Instruments: Disclosures* which requires an entity to disclose information about risk exposures for which the entity hedges and applies hedge accounting, which according to paragraph 6.3.1 of IFRS 9 *Financial Instruments*, could include forecast transactions; and

    (b) paragraphs 25–26 of IAS 1 *Preparation of Financial Statements* which require an entity to disclose all available information about the future that may cast significant doubt upon the entity's ability to continue as a going concern.

15. IFRS 3 *Business Combinations* already requires an entity to disclose some information about expected synergies. Paragraph B64(d) of IFRS 3 requires an entity to disclose 'a qualitative description of the factors that make up the goodwill recognised, such as expected synergies…'.

16. Paragraph 3.6 of the Conceptual Framework provides two conditions for forward-looking information to be included in financial statements, that the information is:

    (a) related to the entity's assets or liabilities—including unrecognised assets or liabilities—or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period (financial statement elements); and

    (b) useful to users.

17. Paragraphs 21–25 explain why, in our view, the information relates to the entity's financial statement elements. While we will analyse feedback on the usefulness of each specific proposal as we redeliberate that proposal, we received feedback

suggesting the information in paragraph 9(a) is useful to users—for example, see paragraphs 14–16 of Agenda Paper 18B for the IASB's December 2024 meeting.

Implications of disclosing the information

18. We continue to acknowledge there may be different definitions of forward-looking information in local regulations and some or all of the information in paragraph 9(a) could meet those definitions of forward-looking information. We acknowledge stakeholders' concerns that meeting local regulations' definitions of forward-looking could result in additional litigation risk for an entity that would be required to disclose that information. We will consider stakeholders' concerns when assessing, for example, concerns about commercial sensitivity and litigation risk.

Relating to an entity's financial statement elements

Feedback summary

19. Some respondents said the IASB should not require performance and expected synergy information in financial statements because the information does not, in their view, directly relate to an entity's assets, liabilities, equity, income or expenses (financial statement elements). In particular:

    (a) goodwill is measured as a residual so there is no direct link between the recognised goodwill and KOTs or expected synergies;

    (b) the measurement of goodwill can be affected by factors not directly linked to the value management expects from a business combination—for example, if the fair value of consideration paid in shares changes between the announcement and acquisition dates; and

    (c) disclosures applying other IFRS Accounting Standards are directly linked to amounts recognised in the financial statements—for example, disclosed assumptions about the expected credit losses of a financial asset are directly linked to the related financial asset.

20. As Agenda Paper 18A for the IASB's July 2021 meeting explains, the IASB received similar feedback on the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (Discussion Paper).

Staff analysis

21. Paragraph 3.2 of the Conceptual Framework states:

> The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources.

22. Additionally, as paragraph 16 explains, paragraph 3.6 of the Conceptual Framework supports the disclosure of forward-looking information in financial statements if, amongst other things, that information relates to financial statement elements.

23. We agree that:

    (a) goodwill is calculated as a residual and not directly measured; and

    (b) the acquisition price (and therefore the total assets and goodwill recognised) may be influenced by factors such as fluctuations in share price between the announcement and acquisition dates.

24. The performance and expected synergy information are not direct inputs to the calculation of recognised goodwill (or any of the other individual assets and liabilities recognised separately in a business combination). However:

    (a) the Conceptual Framework does not require information in financial statements to relate to *an individual* asset or liability (or another financial statement element). Paragraphs 3.2 and 3.6 of the Conceptual Framework refer to 'assets' and 'liabilities' in the plural form. IAS 36 *Impairment of Assets* requires an entity to disclose the assumptions used to determine recoverable amounts in the impairment tests for cash-generating units (or groups of cash-generating units)—a cash-generating unit is a group of assets.

(b) whilst we agree the acquisition price may be influenced by other factors, as paragraph BC137 of the Basis for Conclusions (see Appendix A) notes, information about KOTs and expected synergies provides information about the acquisition price for the business combination. The acquisition price is reflected in the financial statements through the recognition of assets acquired and liabilities assumed in the business combination, including goodwill.

(c) subsequent performance information would follow-up on KOTs and thereby allow users better assess management's stewardship of resources. Paragraph 1.4 of the Conceptual Framework notes that users need information about, amongst other things, 'how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's economic resources.' Paragraphs 1.22–1.23 of the Conceptual Framework explain this further. We also note that subsequent performance information relates to an entity's performance (income and expenses) in the reporting period.

(d) paragraph 3.6(a) of the Conceptual Framework (which explains when forward-looking information can be included in financial statements) refers to 'assets or liabilities—including unrecognised assets or liabilities—or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period'. If forward-looking information can be included for unrecognised assets, then we think performance and expected synergy information can be required even though there may not necessarily be a direct link between the amount of recognised goodwill and KOTs or expected synergies.

25. Based on our analysis, we think performance and expected synergy information relates to financial statement elements. Further, as paragraph 15 notes, expected synergies is one of the factors comprising goodwill.

Financial statements cannot provide all information users need

Feedback summary

26. A few respondents said that information being relevant to users is not a sufficient reason to require an entity to disclose information in financial statements.

Staff analysis

27. We agree financial statements cannot provide all of the information that users need, and users need to consider pertinent information from other sources. Paragraph 1.6 of the Conceptual Framework states:

> However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.

28. Chapter 1 of the Conceptual Framework (which contains paragraph 1.6) explains the objective of general-purpose financial reporting, so the statement in paragraph 1.6 does not, in isolation, determine which specific information general purpose financial reports should / should not provide. Other chapters of the Conceptual Framework explain more about what type of information general purpose financial reports provide.

29. In our view, performance and expected synergy information meets the objective of financial statements set out in paragraph 3.2 of the Conceptual Framework (see paragraph 21). In particular:

    (a) as paragraphs 19–25 explain, the information relates to financial statement elements; and

    (b) as paragraph 17 explains, the information is useful to users.

Implications for other transactions

Feedback summary

30. Some respondents said the rationale for requiring disclosure of performance and expected synergy information in financial statements would also apply to similar information for other types of transactions—such as capital expenditure in pursuit of organic growth—and the proposals could potentially open a 'flood gate' for any information remotely related to an asset or liability to be included in the financial statements.

Staff analysis

31. The IASB's [Business Combinations—Disclosures, Goodwill and Impairment]() project aims to respond to feedback from the post-implementation review (PIR) of IFRS 3. Through its PIR of IFRS 3 and subsequently, the IASB was informed that users need better information to help them assess the performance of a business combination. The project objective is to develop requirements for entities to provide more useful information to users about business combinations, at a reasonable cost.

32. As the Introduction to the Exposure Draft notes, business combinations are often significant transactions for the entities involved and play an important role in the global economy. Feedback from investors received early in the project suggests business combinations are viewed as a riskier form of investment. Some publications suggest 70–75% of mergers and acquisitions are unsuccessful.[1]

33. As explained in paragraph 29, we think performance and expected synergy information meet the objective of financial statements set out in the Conceptual Framework. While we are not, at this stage, commenting on whether the IASB *should* require an entity to disclose this information in financial statements, we think

[1] B Lev, F Gu, *The M&A Failure Trap: Why Most Mergers and Acquisitions Fail and How the Few Succeed,* Wiley, 2024. Based on the authors' criteria and a sample of around 40,000 transactions over a 43-year period, 70–75% of M&A deals failed. This view is consistent with a report by McKinsey & Company, *Perspectives on merger integration,* 2010 which stated that around 70 percent of mergers [and acquisitions] fail.

requiring an entity to disclose that information would not open a 'flood gate' for any information remotely related to an asset or liability to be required in financial statements. Whether the IASB can, and would, require similar information for other transactions is beyond the scope of this project and would depend on:

(a) users’ need for that information;

(b) assessment of whether that information can be provided in financial statements; and

(c) consideration of costs and other practical challenges in disclosing that information.

Management targets may be aspirational

Feedback summary

34. A few respondents said the nature of management’s internal targets for a business combination could differ from the nature of other information typically disclosed in financial statements. Management may often set aspirational internal targets for a business combination to encourage certain behaviours (for example, sales targets used to determine employee remuneration), rather than to serve as an unbiased estimate of future outcomes or of what is reasonably achievable. This information, if disclosed in financial statements, might not faithfully represent what it purports to represent.

Staff analysis

35. Appendix A of the Exposure Draft defines:

(a) a target as ‘[a] target describes the level of performance that will demonstrate whether a key objective for a business combination has been met…’; and

(b) a key objective as ‘[an] objective (that is, a specific aim) for a business combination that is critical to the success of the business combination…’.

36. Paragraph 24–26 of Agenda Paper 18D for the IASB's December 2024 meeting summarises requests to clarify how to interpret these definitions which we will consider when redeliberating the specific proposals. In our view:

 (a) the targets an entity would be required to disclose are those that demonstrate whether a key objective has been met, so could faithfully represent[2] management's expectation from the business combination; and

 (b) aspirational targets would go above and beyond what would be required to 'demonstrate whether a key objective has been met', so would not, in our view, be a 'target' as defined in the Exposure Draft and would not be required to be disclosed.

37. We acknowledge concerns that disclosing realistic KOTs could, for example, demotivate employees with aspirational sales targets. We will consider this concern when assessing whether to extend the exemption from disclosing some items of performance and expected synergy information to such situations.[3]

Summary of staff views

38. Based on our analysis in this paper, we think the conceptual concerns do not preclude the IASB from further analysing and redeliberating whether to require an entity to disclose performance and expected synergy information in financial statements. In particular:

 (a) even if some of the performance and expected synergy information is forward-looking, the information can be required in financial statements; and

[2] Paragraphs 2.12–2.19 of the Conceptual Framework explain faithful representation. Paragraph 2.13 of the Conceptual Framework says 'To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The [IASB's] objective is to maximise those qualities to the extent possible.'

[3] Paragraph 18(d) of Agenda Paper 18F of the IASB's December 2024 meeting included a suggestion to extend the exemption to situations in which disclosing information would expose the entity to social or operational risks, including the loss of key employees.

(b) performance and expected synergy information relates to financial statement elements.

39. As Agenda Paper 18 explains, we will analyse other concerns including auditability, commercial sensitivity and litigation risk in future IASB meetings.

Question for the IASB
Do IASB members have any questions or comments on the analysis in this agenda paper? Specifically: (a) is there anything IASB members would like us to research or analyse further, apart from matters we have already indicated we will consider when analysing each of the specific proposals? (b) do IASB members have any other comments or questions on the analysis in this paper or the staff views summarised in paragraph 38?

Appendix A—Excerpts from the Basis for Conclusions

A1. Paragraphs BC132–BC142 of the Basis for Conclusions state:

Location of information

BC132 Most respondents to the Discussion Paper agreed that the IASB should explore how an entity could provide more useful information about business combinations. However, many respondents said the IASB should not require an entity to disclose information about the performance of a business combination in financial statements. These respondents said an entity should provide this information in management commentary and suggested the IASB consider this as part of its Management Commentary project. Some respondents provided similar feedback about requiring an entity to disclose in its financial statements information about expected synergies (see paragraphs BC148–BC163).

BC133 Most respondents who disagreed with the preliminary view to require an entity to disclose this information in financial statements said this was because the information:

(a) does not directly relate to an entity's assets, liabilities, equity, income and expenses. In the view of these respondents, disclosing such information does not meet the objective of financial statements as described in paragraphs 3.2–3.3 of the *Conceptual Framework for Financial Reporting* (Conceptual Framework); and

(b) includes forward-looking information, which closely resembles information typically included in management commentary.

BC134 The IASB considered this feedback but, for the reasons discussed below, concluded that it can require the information to be disclosed in financial statements.

Does the information meet the objective of financial statements?

BC135 Paragraph 3.2 of the Conceptual Framework and paragraph 9 of IAS 1 *Presentation of Financial Statements* state that the objective of financial statements is to provide financial information about an entity's assets, liabilities, equity, income and expenses that is useful in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources.

BC136 The description of the notes to the financial statements the IASB developed in its Primary Financial Statements project explains that the role of the notes is to provide material financial information necessary:

(a) to enable users to understand the line items presented in the primary financial statements; and

(b) to supplement the primary financial statements with additional financial information to achieve the objective of financial statements.

BC137 Information about an entity's acquisition-date key objectives and the related targets for a business combination and expected synergies provides information about the acquisition price for the business combination. The IASB observes that the acquisition price is reflected in the financial statements through the recognition of assets acquired and liabilities assumed in the business combination, including goodwill.

Forward-looking information

BC138 The IASB acknowledges that some aspects of its proposals—particularly in relation to information about the strategic rationale for a business combination (see paragraphs

BC164–BC165)—could require the disclosure of forward-looking information.

BC139 However, some IASB members think other information (such as information about acquisition-date key objectives, related targets and expected synergies) is not forward-looking in the context of the Conceptual Framework because the information relates to assumptions made at the time a business combination occurs. The information does not represent the expectations of an entity's management about the future performance of the business combination as at the reporting date or when the financial statements are issued. Instead, the information relates to assumptions for a historic transaction. These assumptions are then reflected in the acquisition price and the assets and liabilities recognised as a result of the business combination. Information about management's acquisition-date key objectives, their related targets and expected synergies are fixed at the date of acquisition.

BC140 The IASB considered whether the information about acquisition-date key objectives, related targets and expected synergies can be required in financial statements in accordance with the Conceptual Framework. Paragraph 3.6 of the Conceptual Framework supports the disclosure of forward-looking information in financial statements if that information:

(a) relates to an entity's assets or liabilities—including unrecognised assets or liabilities—or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period; and

(b) is useful to users.

BC141 In the IASB's view, the information it proposes requiring an entity to disclose relates to assets the entity has acquired and liabilities it has assumed in a business combination (see paragraph 0) and is useful to users (see paragraphs BC18–BC21).

BC142 Although some IASB members think this information is not forward-looking, the IASB acknowledges that other stakeholders regard the information to be forward-looking, possibly because of different definitions of forward-looking in local regulations. The definition of forward-looking information in those regulations might result in additional litigation risk for an entity disclosing the information. The IASB considered this feedback in developing the exemption (see paragraphs BC82–BC85).