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Staff paper

FASB | IASB Joint Education Meeting

Date	**September 2022**
Project	**Goodwill and Impairment**
Topic	**Disclosures about business combinations**
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Background

The preliminary views

Additional disclosure objectives

- Add additional disclosure objectives to IFRS 3 *Business Combinations* that would require entities to disclose information that would help users of financial statements (users) understand:
  - the benefits an entity expected from a business combination when agreeing the price to acquire that business; and
  - the extent to which management's objectives are being met.

Disclosure about performance of business combinations

- Require entities to disclose in the year of a business combination, the strategic rationale and objectives for that business combination and the metrics management plan to use to monitor achievement of those objectives.
- In subsequent years, disclose management's review of the entity's performance against those objectives.
- The information that would be disclosed is the information an entity's Chief Operating Decision Maker (CODM) is reviewing to assess the performance of the business combinations that the CODM is reviewing.

Disclosure about expected synergies

- Require entities to disclose in the year of a business combination quantitative information about the synergies expected as a result of the business combination.

The preliminary views were expressed in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*.
Agenda Paper 18D contains staff examples illustrating the preliminary views.

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Feedback

Overall message

Many respondents, including almost all users, agreed with the preliminary views. However, many respondents, including almost all preparers, disagreed. Respondents identified practical challenges with the preliminary views.

Summary of feedback

- Most preparers disagreed with the preliminary views because they expect the **costs of the disclosures to outweigh the benefits:**
  - **Monetary costs:** for example, costs of collecting and auditing the information; and
  - **Proprietary costs:** for example from disclosing information some consider to be commercially sensitive and potential litigation from disclosing information some consider to be forward-looking.
- Some respondents, mainly in Europe, were also concerned that the required disclosure will put entities applying IFRS Standards at a disadvantage compared to other entities, notably those applying US GAAP.
- Many respondents said information about the performance of business combinations should be provided in **management commentary rather than financial statements.**

Practical concerns

Summary of feedback

Preparers responding to the Discussion Paper identified four practical concerns about disclosing the information described on slide 4. Our subsequent research confirmed these concerns. The concerns are:

- **commercial sensitivity**—that information could contain sensitive information that, if disclosed, could harm the entity. Respondents who disagreed said commercial sensitivity is the main practical barrier to disclosing the information identified in the preliminary views. Information most likely to be commercially sensitive is quantitative information about management's targets;
- **forward-looking information**—that information could contain information about the future that, if disclosed, could increase litigation risk. Also in some jurisdictions, providing such information in the financial statements would not allow entities to benefit from 'safe harbour' protections;
- **integration**—an entity may not be able to disclose information that is representative of the performance of a business combination if the acquired business is integrated into the entity's existing operations; and
- **auditability**—some information that would be required by the preliminary views may be costly, or difficult, to audit.

The management approach

Summary of feedback

Respondents who agreed:

- Most respondents agreed with the use of a management approach. They said it would reduce the cost of implementing the preliminary views, although some said that the management approach would still not reduce the costs sufficiently.

Respondents who disagreed:

- A few national standard-setters and accounting bodies said they prefer specifying a set of metrics for all entities to disclose rather than use the metrics used by an entity’s management.
- A few respondents, including some users, said using a management approach would be open to abuse.

Is the CODM the right level of management?

- The IASB received mixed feedback:
  - many respondents said using the CODM to identify business combinations for which to disclose information is a practical approach that provides a reasonable cost-benefit balance.
  - some respondents said the CODM reviews information about few large business combinations that are strategically important and that using the CODM in this way might result in users not receiving all material information.
  - a few respondents expressed concern about the IASB using the CODM in this way because it introduces additional complexity to IFRS 3.

Location of the information

Summary of feedback

Respondents who agreed said:

- The IASB should require this information in financial statements because:
  - the IASB has **no ability** to require the information to be provided in management commentary and including these disclosure requirements in a non-mandatory practice statement on management commentary may not effectively address the lack of information on the subsequent performance of business combinations.
  - Requiring this information in **one location** is helpful for users.

Respondents who disagreed said:

- Information about management's strategy, targets and the progress in meeting those targets should be located in management commentary for three reasons:
  - **conceptual reasons**—the information is of a type that belongs in management commentary and not financial statements;
  - **practical reasons**—placing information in management commentary would: (i) enable entities to benefit from 'safe-harbour' protections from potential litigation and (ii) help resolve concerns about the auditability of management's targets;
  - to **avoid duplication** of information.

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Developments since the last joint meeting

Response to feedback

Location of information	• In October 2021 the IASB tentatively decided that, based on the *Conceptual Framework for Financial Reporting*, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met. • However, in October 2021 the IASB also acknowledged that there may be practical reasons for not proceeding with some or all of the preliminary views.
Practical concerns	• In Q4 2021 and Q1 2022 the staff tested staff examples illustrating the information an entity would disclose applying the preliminary views. Staff tested the examples with various stakeholders, including members of the IASB's consultative groups. • The IASB discussed various alternatives to its preliminary views that may help better balance the cost and benefits and result in the IASB proceeding with an amended version of its preliminary views.

Possible alternatives to address practical concerns

In April 2022 the IASB discussed two variables that can be adjusted to better balance the costs and benefits of any proposed requirements:

- the **population** of business combinations for which information would be disclosed; or
- the **amount** of information to be disclosed for each affected business combination.

Population of business combinations

- Require disclosure about the strategic rationale, management objectives and subsequent performance of business combinations and expected synergies for only a subset of 'material' business combinations.

Amount of information

- Requiring only qualitative information in the year of acquisition rather than quantitative information.
- Specifying the metrics an entity would disclose.
- Exempt entities from disclosing particular information in specific circumstances.

The IASB could combine some of the alternatives, for example by requiring disclosure of information provided applying the IASB's preliminary views for a subset of business combinations but allow entities to apply an exemption in specific circumstances.

September 2022 IASB meeting

The IASB is expected to make a tentative decision as to how to proceed with improving disclosures about the subsequent performance of business combinations and expected synergies at its September 2022 meeting.

Please see Agenda Paper 18E to this meeting for details about the IASB's tentative decision at its September 2022 meeting. (which will be available after the IASB's September 2022 meeting)

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