

Business Combinations— Disclosures, Goodwill and Impairment

Joint CMAC-GPF meeting
Agenda Paper 5
June 2022

Overview

Purpose of this session

IASB's preliminary views for disclosures

Feedback on the preliminary views

Possible ways forward for disclosures

Question for CMAC and GPF members

Purpose of this session

Background

- The IASB published the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* in March 2020. The Discussion Paper included some preliminary views to improve the information entities disclose about business combinations. Slide 5 contains more information about those preliminary views.
- The IASB is considering whether, and if so how, to proceed with its preliminary views on the disclosure requirements about business combinations. The IASB is expected to make a decision on this topic in Q3 2022. The remaining topics in this project (eg the subsequent accounting for goodwill) will be discussed in Q4 2022 and later.

Purpose of this session

- To seek views on how to improve the information entities disclose about business combinations that best balances users' needs and preparers' concerns.

Message from PIR of IFRS 3



What we heard



Users do not get enough information about business combinations and their subsequent performance

Such information would allow users to:

- assess how well a business combination has performed; and
- hold management to account for their investment decisions (stewardship).



Project Objective

To improve the information entities provide to users, at a reasonable cost, about the business combinations those entities make.

The IASB's preliminary views

The IASB's preliminary view

Additional disclosure objectives

- Add additional disclosure objectives to IFRS 3 that would require entities to disclose information that would help users understand:
 - the benefits an entity expected from a business combination when agreeing the price to acquire a business; and
 - the extent to which management's objectives for a business combination 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 the acquisition and the metrics management plan to use to monitor achievement of those objectives.
- In subsequent years, disclose entity's performance against those objectives.

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 Discussion Paper contained other preliminary views about the disclosure requirements on business combinations but they are not the focus of this discussion.

Feedback on the preliminary views

Feedback from users

- Users said the information described on slide 5 is needed, in particular to:
 - understand the price an entity paid to acquire a business; and
 - assess management’s stewardship of the entity’s capital.

Feedback from preparers

- Preparers responding to the Discussion Paper identified four practical concerns about disclosing the information described on slide 5. These concerns were confirmed in the subsequent staff outreach on this topic. The concerns are:
 - commercial sensitivity—that information could contain sensitive information that, if disclosed, could harm the entity;
 - forward-looking information—that information could contain information about the future that, if disclosed, could increase litigation risk;
 - 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 impossible, to audit.

Possible ways forward for disclosures

Possible alternatives considered by the IASB

- Agenda Paper 5A to this meeting is a copy of an agenda paper presented to the IASB in April 2022 with possible alternatives and the staff's analysis of those alternatives. Possible alternatives discussed in paragraphs 31–65 of that agenda paper include:
 - requiring disclosures for only a specific population of business combinations¹;
 - exempting entities from disclosing particular information in specific circumstances²;
 - requiring only qualitative information in the year of acquisition rather than quantitative information; and
 - specifying the metrics an entity would disclose.
- Those alternatives could be combined in different combinations.

¹ This alternative is titled 'Disclosing information about only 'significant' business combinations' in paragraphs 35–43 of Agenda Paper 5A. We have amended the title of this alternative in response to comments from IASB members at the April 2022 IASB meeting.

² This alternative is titled 'a comply or explain model' in paragraphs 44–51 of Agenda Paper 5A. We have amended the title of this alternative in response to comments from IASB members at the April 2022 IASB meeting.

Possible ways forward for disclosures (cont.)

The April 2022 IASB meeting

- The IASB did not make any decisions at its April 2022 meeting. Much of the IASB's discussion focused on two alternatives:
 - requiring disclosures for only a specific population of business combinations. In particular, IASB members discussed how such a population could be defined.
 - allowing exemptions from disclosure requirements in specific circumstances. In particular IASB members discussed:
 - a) whether any exemptions should be applied in a narrow or wide set of circumstances; and
 - b) what circumstances exemptions should apply in. For example, for situations in which the information is not available (eg because the acquired business has been integrated) or if disclosing the information has negative economic effects (eg because the information is commercially sensitive).
- A few IASB members also asked whether it is possible to repurpose and improve existing disclosure requirements to meet the objective in the Discussion Paper of providing information about the subsequent performance of business combinations.

Question for CMAC and GPF members

Question for members

- In your breakout groups discuss the best way forward for the IASB in improving disclosures about business combinations while balancing the user needs and preparer concerns noted on slide 6. What is your suggestion and why would it represent the best way forward?

Factors to consider

- The alternatives or combinations of the alternatives discussed in Agenda Paper 5A
- If relevant for your suggestion, (a) how to identify the relevant population of business combinations; or (b) what are the circumstances in which an entity should be exempted from disclosing information?
- How the information that would be disclosed applying your suggestion is an improvement on the information disclosed today
- Whether there are alternatives the staff didn't consider in Agenda Paper 5A

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