

Performance of acquisitions



Zach Gast

The International Accounting Standards Board (IASB) is proposing improvements to disclosure requirements for acquisitions.

The proposals would improve the information disclosed at the time of an acquisition and introduce requirements for reporting on the subsequent performance of the acquisition.

The IASB is seeking feedback from investors, companies and other stakeholders before making any changes. IASB member **Zach Gast** explains what the IASB is proposing, why it matters for investors and why investors might want to get involved in the consultation.

What is the IASB proposing?

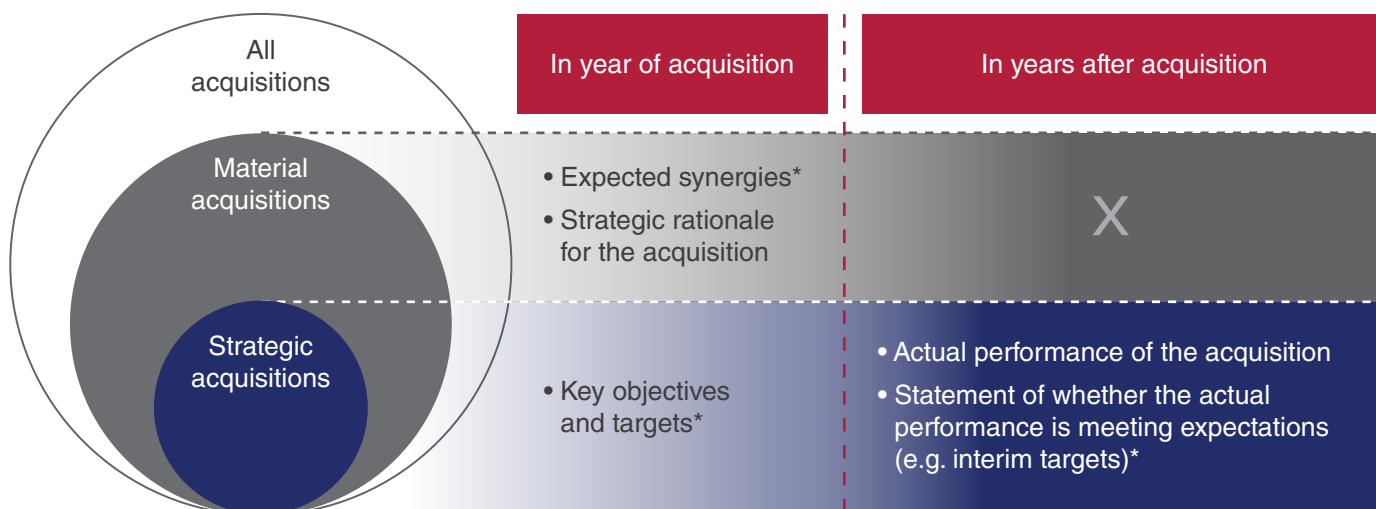
Many, if not most, publicly listed companies will complete acquisitions during their business. IFRS Accounting Standards require companies to disclose information in their financial statements about any material acquisitions.

When the IASB evaluated the effectiveness of IFRS 3 *Business Combinations*, which explains how to account for acquisitions, it received feedback that investors did not get enough information to assess the performance of acquisitions, forcing them to rely on goodwill impairment as an indicator of acquisition performance.

The IASB decided to propose changes to IFRS 3 to meet this information need. It is now seeking stakeholder feedback on its [Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment*](#).

Diagram 1 shows the main elements of the proposed new requirements. The rest of this article briefly explains these proposed new requirements and the circumstances in which companies may be exempt from applying them.

Diagram 1: What new disclosures is the IASB proposing?



*Exemption available if requirements are met

Disclosure improvements— strategic acquisitions

The IASB proposes to require a company to disclose information about the performance of acquisitions, to help investors understand whether an acquisition has been successful. The IASB considered whether investors need this information for all acquisitions and decided to require disclosures about performance for only ‘strategic’ acquisitions.

A strategic acquisition:

- contributes at least 10% of the company’s revenue, operating profit or loss, or total assets; or
- results in the company entering a new major line of business or geographical area of operations.

The IASB expects these criteria will identify the acquisitions that investors care most about, enabling companies to provide information on these acquisitions while avoiding excessive costs.

Key objectives and targets

The IASB considered requiring a company to disclose the standalone performance of the acquired business but decided not to, because stakeholders said many companies integrate acquired businesses soon after acquiring them. Tracking the standalone performance of acquired businesses would be too costly for companies.

Instead, in the first annual financial statements after a strategic acquisition, a company would be required to disclose its acquisition-date key objectives and specific targets.

The key objectives and targets are defined as those reviewed by ‘key management personnel’, which includes any of a company’s executive or non-executive directors. The IASB considered defining the key objectives and targets as those reviewed by the chief operating decision maker (the same management used for segment disclosures). However, stakeholders said chief operating decision makers do not universally review the same type of acquisitions, which might cause comparability issues.

For example, a company might plan to integrate the acquired business to increase overall revenue and market share in a particular region. The specific target would be management’s assessment that the acquisition will allow the combined business to increase revenue in that region by 5–7% for three years before normalising and that this growth will allow the company to achieve a 15% market share in the region at the end of the

three-year period. Management’s assessment will be embedded in the purchase price and the amount of goodwill it recognises.

Subsequent performance

In subsequent years, for as long as key management personnel review the performance of a strategic acquisition, a company would be required:

- to provide information on the actual performance of the acquisition; and
- to state whether that actual performance is meeting expectations (for example, interim targets).

If a company stops monitoring a key objective for a strategic acquisition in the first few years after the acquisition, it would be required to disclose that fact and say why it has done so.

Disclosure improvements— all material acquisitions

As well as introducing disclosures for strategic acquisitions, the IASB is proposing expanded disclosures for all material acquisitions—that is, acquisitions for which information is disclosed individually.

Expected synergies

The IASB proposed that a company be required to disclose the synergies expected from an acquisition and the expected costs to achieve those synergies. This disclosure would show each category of synergies—for example, revenue synergies, cost synergies and any other category of synergies. A company would also have to disclose when it expects the benefits to start and how long it expects the benefits to last.

Amending existing requirements

The IASB is proposing targeted amendments to existing requirements for so-called ‘pro forma’ information—that is, disclosures in the financial statements reporting what the performance of the company would have been if the businesses had been combined for the whole reporting period. For the pro forma information, the IASB proposes amending IFRS 3 to replace ‘profit or loss’ with ‘operating profit or loss’ to reduce diversity in the measure used.

The IASB also proposes to require a company to disclose its ‘strategic rationale’ for an acquisition rather than its ‘primary reasons’ as required today. The aim is to make a clearer link between a company’s objectives for an acquisition and its overall business strategy.

Exemption from proposed requirements

One of the issues the IASB discussed was feedback from companies that sometimes one or more pieces of information could be so commercially sensitive that disclosing the information would harm a company's ability to achieve a key objective of the acquisition.

For example, if a key objective of an acquisition is to develop and launch a new product, disclosing that objective could harm the product launch.

To allow for these circumstances, the IASB proposed an exemption that allows a company to explain that disclosing an item of information would seriously prejudice the achievement of the company's acquisition objectives—instead of disclosing that item of information.

For each item of information that a company intends to apply the exemption to, it would be required to first consider whether it could disclose the information in a different way. For example, if disclosing expected synergies could harm the achievement of a key objective for the acquisition, a company would be required to explore disclosing total synergies, rather than each category of synergies, before applying the exemption.

Each item of information to which the exemption is applied will require an explanation of why it was not disclosed.



Find out more

For an overview of the proposals, read our [Snapshot](#) available on the [project page](#). The full text of the Exposure Draft is available [here](#).



We need your views

The IASB is seeking feedback on whether it has struck the right balance between meeting investors' needs and responding to companies' concerns about cost and commercial sensitivity.

We would like to hear your views and comments on these proposals. We are especially interested in receiving feedback from investors on, for example:

- whether the thresholds for strategic acquisitions would identify the acquisitions whose performance you are most interested in understanding; and
- whether information about synergies by category (subject to the possibility of these being aggregated in specific circumstances) is useful.

The proposals are open for comment until 15 July 2024. Please let us know what you think.



To get in touch

The IASB seeks to meet one-on-one with investors to explore feedback on the proposed requirements.

If you would be interested in participating in these meetings, please feel free to contact me at zgast@ifrs.org or Sid Kumar from the Investor Engagement team at skumar@ifrs.org.

We are also available if you have questions about the feedback process, and we can assist you in submitting feedback in any form.

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