IFRS

STAFF PAPER

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Project	**Goodwill and Impairment**		
Paper topic	Better disclosures for business combinations		
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Purpose of this paper

1. The purpose of this paper is to further analyse the improvements to the disclosure objectives and disclosure requirements of IFRS 3 and to respond to comments received from Board members at the April 2019 meeting on the staff's ideas that were discussed in the meeting.

2. This paper asks the Board members for any further comments they have on the staff's ideas for improvements to the disclosure objectives and disclosure requirements of IFRS 3 for the staff to consider as it develops the papers for the June 2019 Board meeting where the Board will determine its preliminary views, if any, to express in the Discussion Paper.

> This paper is based on Agenda Paper 18B for the April 2019 Board meeting with further analysis on the staff's ideas for better disclosures considering the feedback from the Board members in the following areas:
>
> (a) background and introduction (see paragraph 12)
>
> (b) additional disclosures on key objectives of a business combination (subsequent performance) (see paragraphs 67-76)
>
> (c) other additional targeted changes (deleting some existing disclosure requirements in IFRS 3 and a 'catch-all' disclosure requirement) (see paragraphs 80-84)

(d) disclosure of the acquiree's revenue, operating profit or loss, and cash flow from operating activities (see paragraphs 121-124)

(e) disclosure of the amount of equity, less goodwill and some intangible assets (see paragraphs 133-149)

The staff have highlighted that additional material by placing it in boxes.

The wording of the disclosure objective set out in paragraph 24(c), and mentioned throughout the paper, has been amended refer to the extent to which the key objectives of the business combination **are being** achieved rather than **have been** achieved. Other changes have also been made to paragraphs 20, 56, 106, 117, 119, 130 and 132 to help clarify the arguments. Other minor editorial changes have been made.

Finally, an additional recommendation is included in paragraph 4(c)(iv) and a revised question for the Board has been included at the end of the paper. All other recommendations summarised in paragraph 4 are unchanged from the April 2019 Board paper.

Summary of staff recommendations in this paper

3. The Board set the project an objective of exploring whether disclosures could be improved to help investors to assess more effectively whether a business combination was a good investment decision and whether the acquired business is performing after the acquisition as was expected at the time of the acquisition.

4. In order to meet this objective, the staff intend to suggest improvements to:

   (a) the disclosure objectives of IFRS 3 to:

      (i) clarify some existing disclosure requirements; and

      (ii) result in entities providing new information, thus helping users of the financial statements (users) to assess the subsequent performance of the acquired business, or combined business;

   (b) add disclosure requirements for entities to provide information that will help users to assess whether the key objectives of the business combination are being achieved; and

(c) make targeted improvements to existing disclosure requirements of IFRS 3 that are not leading entities to provide the information the Board expected, specifically to disclose:

(i) the amount, or range of amounts, of expected synergies;

(ii) separately any liabilities arising from financing activities and pension obligations assumed;

(iii) the amounts of the acquiree's revenue, operating profit or loss, and cash flow from operating activities since the acquisition date; and

(iv) a 'catch-all' requirement to ensure the disclosures provided are sufficient to meet the disclosure objectives of IFRS 3.

Structure of the paper

5. The paper is structured as follows:

(a) Background and introduction (paragraphs 6–12);

(b) Outreach performed by the staff (paragraphs 13–14);

(c) Better disclosures for business combinations (paragraphs 15–124);

(i) improving disclosure objectives of IFRS 3 (paragraphs 18–26);

(ii) additional disclosures on key objectives of a business combination (subsequent performance) (paragraphs 27–76);

(iii) targeted improvements to the existing disclosure requirements of IFRS 3 (paragraphs 77–124); and

(d) Other disclosures (paragraphs 125–149);

(e) Staff recommendations (paragraphs 150–155); and

(f) Question for the Board

Background and introduction

6. During and after the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*, users gave mixed feedback about the information provided by entities on business combinations, goodwill and impairment.

   (a) Some said the information currently produced by applying the requirements in IAS 36 *Impairment of Assets* is relevant because it has confirmatory value for users, helps them assess stewardship by management of the reporting entity's economic resources and helps them assess whether an acquisition is working as expected.

   (b) Some said the information currently provided has one or more of the following limitations:

      (i) impairment losses are recognised too late;

      (ii) estimates of recoverable amounts are inherently very judgemental and the assumptions used in the calculations are subjective;

      (iii) disclosures are not sufficient to enable users to assess whether the main inputs/assumptions are reasonable. Nevertheless, some users said that some of the current disclosures are useful; these included discount rates, long-term growth rates, profit and capital expenditure assumptions and sensitivities; and

      (iv) insufficient information is provided to help users understand the subsequent performance of the acquired business and whether the main targets and expected synergies of the acquisition are being achieved.

   (c) Some users focus more on the timing of the impairment write-down and its overall magnitude than on the specific amount of the impairment loss recognised.

   (d) Some said that the disclosures provided by entities applying the requirements in IFRS 3 do not produce sufficient information for users to properly understand the effect of the business combination on the reporting entity. For example, they said that:

(i) the qualitative description of the factors that make up the acquired goodwill is often generic and not useful;

(ii) they often seek to assess the return on capital that has been deployed in an acquisition and it is often difficult to ascertain the total cost (or capital employed) of an acquisition. For these users it is critical to calculate the total cost (or capital employed) including cash paid, cash acquired, debt and pension obligations assumed, fees and restructuring costs, shares and notes issued to the vendor together with any deferred consideration; and

(iii) for their trend analysis, they need clear information on the operating performance of the acquired business—specifically, revenue and operating profit over preceding periods and pro forma prior year comparative information for the combined entity.

7. Users appear to be particularly interested in understanding (a) the key drivers that determined the amount of consideration the acquirer was willing to pay for the acquiree and (b) whether the acquisition has subsequently been successful. On the other hand, preparers generally think that the existing disclosure requirements in IFRS 3 and IAS 36 are excessive.

8. The Board did not initially include a review of disclosure requirements in the scope of the research on goodwill and impairment. However, in the light of further feedback from users after the PIR, the Board directed the staff to consider whether better, timely information about goodwill and impairment can be provided to users whilst still achieving an appropriate cost-benefit balance.

9. In the December 2017 Board meeting, the Board tentatively decided to consider introducing requirements for an entity to disclose:

(a) in the year in which a business combination occurs, the reasons for paying a premium that exceeds the fair value of the net identifiable assets acquired in the business combination, together with key assumptions or targets supporting the purchase consideration; and subsequently each year, a comparison of actual performance with those assumptions or targets.

(b) each year, a breakdown of goodwill by past business combination, explaining why the carrying amount of goodwill is recoverable.

(c) each year, information about the headroom[1] in a cash-generating unit (or groups of units) to which goodwill is allocated for impairment testing.

10. Part of the information that could contribute to meeting the project objective described in paragraph 3 could be supplied by the requirement described in paragraph 9(a). This idea has been developed further by staff as discussed in paragraphs 27–76.

11. In contrast, the possible requirements described in paragraphs 9(b) and 9(c) would not contribute to meeting that project objective and therefore the staff no longer recommend them. They were intended to provide information that would help users to better assess the recoverability of recognised goodwill. They might provide some indirect information on the subsequent performance of the acquired business, or combined business, but that would not have been their main objective.

12. In the April 2019 Board meeting, the Board discussed the staff's ideas for improving the disclosure objectives and disclosure requirements of IFRS 3 to meet the project objective described in paragraph 3. Although the Board generally was supportive of the potential improvements the staff suggested, the Board provided feedback on the following ideas which the staff have analysed further:

(a) additional disclosures on key objectives of a business combination (subsequent performance) (see paragraphs 67-76);

(b) other additional targeted changes (deleting some existing disclosure requirements in IFRS 3 and a 'catch-all' disclosure requirement) (see paragraphs 80-84);

(c) disclosure of the acquiree's revenue, operating profit or loss, and cash flow from operating activities (see paragraphs 121-124); and,

[1] The headroom is the amount by which the recoverable amount of a unit (or group of units) exceeds its carrying amount.

(d)	disclosure of the amount of equity, less goodwill and some intangible assets (see paragraphs 133-149).

Outreach performed by the staff

13. The staff developed the ideas presented in the April 2019 Board paper taking into account feedback from meetings with:

    (a) a small number of individual preparers and auditors;

    (b) diverse stakeholder groups, including a roundtable in Australia hosted by the Australian Accounting Standards Board; and

    (c) the Board's consultative groups: the Capital Markets Advisory Committee (CMAC), the Global Preparers Forum (GPF), and the Accounting Standards Advisory Forum (ASAF).

14. The staff recommendations in the paper were intended to strike a reasonable balance between meeting the needs of users and being feasible for preparers to produce, at a cost that is justified by the benefit to users.

Better disclosures for business combinations

15. The feedback from stakeholders during and after the PIR of IFRS 3 indicates that existing disclosure requirements for business combinations often produce limited or boiler-plate information. The lack of specific information can impede users' understanding of why an entity undertook a business combination and what it paid for.

16. Furthermore, information provided to meet the existing disclosure requirements does not help users to assess, in the light of subsequent performance, whether the key objectives of the business combination are being achieved.

17. In response to this feedback the staff have developed ideas to:

    (a) improve the disclosure objectives set out in IFRS 3;

(b) add disclosure requirements for entities to produce information that will help users to assess whether the key objectives of the business combination are being achieved (subsequent performance); and

(c) make targeted improvements to existing disclosure requirements of IFRS 3 that are not resulting in entities providing the information expected.

Improving disclosure objectives of IFRS 3

18. The existing disclosure objectives in IFRS 3 require entities to provide information that enables users to evaluate:

(a) the nature and financial effect of a business combination that occurs during the current reporting period or after the end of the reporting period but before the financial statements are authorised for issue; and

(b) the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.

19. Feedback from stakeholders during the PIR of IFRS 3 indicated that, although the existing disclosure requirements of IFRS 3 are extensive, those requirements are frequently used mechanically as a checklist and the resulting disclosures are boiler-plate and provide insufficient information for users.

20. In past Board meetings, some Board members also noted that one of the main reasons for users' concerns about boiler-plate disclosures about business combination could be that the current drafting of IFRS 3 does not clearly set out the disclosure objectives. The staff agreed that this problem is caused partly by a lack of specific disclosure objectives that explain fully why users need the information being requested.

21. We understand from feedback that users need information which would help them assess whether an entity has overpaid for a business combination.

22. Furthermore, users are particularly interested in information on whether the key objectives of a business combination are being achieved (subsequent performance). No existing disclosure objective in IFRS 3 addresses this point.

23. To meet these needs, the staff suggest the Board propose two changes to the disclosure objectives of IFRS 3; firstly, make the disclosure objectives more specific together with explanation of their purpose, to help preparers understand why the information is needed, and as a result help them to improve the information produced; and secondly, add a new disclosure objective for entities to provide information that users need about the subsequent performance of the acquired business, or combined business.

24. To implement those two changes, the staff suggest adding to the existing disclosure objectives of IFRS 3 the following additional disclosure objectives of providing users with information to help them:

    (a) to evaluate the strategic rationale for the business combination;

    (b) to understand the amount of, and evaluate the rationale for, the total consideration transferred to obtain control of the acquiree; and

    (c) to evaluate the extent to which the key objectives of the business combination are being achieved.

25. In developing this paper, the staff have tried to develop specific disclosure objectives, link disclosure requirements to those objectives and explain why the information is required. This is in line with the thinking described in the draft Guidance for the Board (developed as part of the Board's *Disclosure Initiative – Targeted Standards-level Review of Disclosures* project to be used when developing and drafting disclosure objectives and requirements).

26. Although there was not much specific discussion of the staff's ideas on possible new disclosure objectives in the staff's outreach, the few comments received were generally supportive. In addition, although preparers raised various issues, some members of GPF agreed there was a need to improve the information for users.

Additional disclosures on key objectives of a business combination (subsequent performance)

Why do users need information on the acquisition's subsequent performance?

27. The staff have developed ideas for disclosure requirements to meet the possible new disclosure objective set out in paragraph 24(c) to provide better information

on whether the key objectives of the business combination are being achieved. In developing these ideas, the staff asked CMAC members the following questions:

(a) Why is information on the acquisition's subsequent performance needed?

(b) What makes information about the performance of the acquired business different to information about the performance of the existing business?

28. The majority of CMAC members indicated that information on the subsequent performance of the acquired business is needed to monitor management's stewardship in making acquisition decisions, to help investors decide whether they can trust management with further capital. However, some CMAC members said they need the information to value the acquired business more accurately.

29. CMAC members also stated that information contained in segment reporting alone is insufficient in addressing the information needs of users relating to the subsequent performance of acquired businesses for the following reasons:

(a) segment information disclosed in financial statements is generally provided at a level higher than that of individual acquisitions. Information contained in segment reporting would not capture acquisition-specific information if the business acquired is not large enough to be a reportable segment; and

(b) IFRS 8 *Operating Segments* currently does not require the disclosure of some information by reportable segment, such as segment operating cash flow, capital expenditure, assets and liabilities.

30. Hence, users need information on subsequent performance primarily to help them to assess management's stewardship and management's ability to generate value from business combinations. The information also helps users to assess whether the expected benefits of the business combination have reduced and therefore the information has a secondary benefit of compensating, to some extent, for the unavoidable limitations of impairment tests.

31. Although preparers raised several issues that would arise in providing the additional information, they acknowledged that there is a need to improve

information on whether the key objectives of a business combination are being achieved (subsequent performance).

What information should be provided?

32. Business combinations are diverse, and those combinations can vary in nature and be undertaken to meet various objectives. The objectives of business combinations can also be achieved in several ways, depending on the facts and circumstances of each business combination. Consequently, the staff believe no single measure will provide users with information on whether the key objectives are being achieved for all business combinations.

33. The feedback from the staff's outreach also indicated that some preparers believe there is a need for flexibility in how to provide information. For example, some GPF members commented that management needed flexibility to tailor the disclosures in light of entity-specific circumstances and that different factors would be needed to best describe subsequent performance for different acquisitions. Users also agreed that the information to assess post-acquisition performance might vary from deal to deal, and that one single measure is unlikely to be suitable for all business combinations.

34. In light of these comments, the staff think the information on subsequent performance should be based on how an entity's management monitors and measures in its internal reporting whether the key objectives of the business combination are being achieved.

35. This approach is a management approach, with some analogies to the approach used in IFRS 8. Adopting such an approach has the following advantages:

    (a) The fact that the information is used internally should make it more robust than information generated solely for external reporting.

    (b) The fact that the information is used internally would minimise costs.

    (c) Entities would not have a free choice about what information to disclose - entities would be required to disclose the information that management uses to measure and monitor a business combination.

    (d) Although the information disclosed could differ from information provided by other entities because it is determined by the entity's own management, the primary reason for the information is not to provide comparability with other acquisitions by other entities but to give users insight into how management determines the objectives for the acquisition and monitors success against those objectives.

36. Paragraph B64(d) of IFRS 3 requires an entity to disclose the primary reasons for the business combination. The staff suggest this disclosure requirement be revised and expanded to require an entity to disclose:

    (a) the strategic rationale for undertaking the business combination, such as how the acquisition links to the acquirer’s business strategy; and

    (b) the key objectives of the business combination, being the targets management expect to achieve as a result of undertaking the business combination. These key objectives would form the basis of the information to help users assess the subsequent performance of the acquired business, or combined business.

37. Respondents to the PIR of IFRS 3 commented that information provided by the existing requirement in paragraph B64(d) is often boiler-plate and does not provide useful information for users to understand management’s rationale for the business combination.

38. The staff think the limited or boiler-plate nature of the information provided can be attributed to the lack of specificity in the generic existing disclosure requirement. The staff think that making the requirement more specific, coupled with the new requirement to provide additional information on the key objectives of the business combination, would improve the information provided.

39. To illustrate the staff’s thinking further, the strategic rationale of the business combination is likely to be quite broad (eg to expand entity A’s geographical presence by acquiring entity B which has a presence in territory X) and is expected, for example, to be consistent with the business strategy set out by the entity elsewhere in its financial reporting—for example, in management commentary. On the other hand, the key objectives are more specific targets for that business combination (eg achieve annual sales of CU 100 million of entity A’s existing products in new territory X using the acquired sales channels of entity B).

40. In developing ideas on information to help users assess whether the key objectives of a business combination are being achieved (subsequent performance), the staff discussed the following issues with stakeholders:

    (a) Should this information be required for all material business combinations?

    (b) What measures should be disclosed, do these always need to be quantitative and can the measures change?

    (c) Should this information be provided in the financial statements or in the management commentary?

    (d) How long should this information be provided?

Should this information be required for all material business combinations?

41. Existing IFRS 3 disclosure objectives and related disclosure requirements are applied for material business combinations. If individually immaterial business combinations are material collectively, the disclosures must be provided but may be provided in aggregate.

42. The staff received mixed feedback on whether additional disclosure requirements to help users to assess whether the key objectives of a business combination are being achieved should be applied to all material business combinations or only to what some call ‘super-material’ business combinations (ie fundamental or strategic business combinations):

    (a) some GPF and CMAC members, for example, suggested that disclosures for subsequent performance should be required only for major acquisitions.

    (b) ASAF members generally did not support an additional threshold to determine whether disclosures are required because of concerns that setting another level of materiality would add additional complexity to judgements that are already difficult.

43. Instead of setting a new threshold, the staff recommend that disclosures to meet this objective are required only for business combinations that are monitored by the chief operating decision maker (CODM) as defined in IFRS 8.

44. The staff think that the CODM would review all significant or strategic business combinations, and that this would establish an appropriate level of disclosure that balances users' needs with practical considerations for preparers.

45. There are some parallels between acquisitions and disposals. In both cases, users need information in the year of transaction about the contribution of an entity that was acquired or disposed of. Therefore, the staff also considered using the threshold included in the definition of a discontinued operation in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, namely a component of an entity that represents a separate major line of business or geographical area of operations.

46. Although this would provide symmetry between acquisitions and disposals, a judgement would still need to be made. On balance, the staff believe using the CODM approach a better solution for the following reasons:

    (a) This is a logical extension of the management approach articulated in paragraph 35, whereby the information provided would be based on what management (defined as the CODM) uses to monitor the business combination. If another threshold was set this could result in disclosure of information that crosses the threshold but is not used by management to monitor the business combination.

    (b) Stakeholders will be familiar with the application of this approach, and for those entities in the scope of IFRS 8, will already be applying it.

    (c) As discussed in paragraph 35, providing information already being used internally should minimise costs and that information is likely to be more robust than information generated solely for external reporting.

    (d) If the CODM does not monitor a business combination, disclosing that fact could in itself provide useful information for users.

What measures should be disclosed, do these always need to be quantitative and can the measures change?

47. The staff discussed with stakeholders the following examples to help staff identify what steps entities take to monitor business combinations in practice:

(a) estimating the amount of synergies to be achieved and monitoring the achievement of these synergies in subsequent reporting periods;

(b) setting acquisition date financial and/or operating key performance indicator (KPI) targets and monitoring these in subsequent reporting periods;

(c) comparing acquisition date cash flow forecasts for the business combination to actual cash flows in subsequent reporting periods;

(d) calculating the return on segment (or cash-generating unit(s)) assets with an analysis of how the business combination contributed to the year on year changes in the return achieved compared to that expected at the acquisition date; and

(e) estimating the payback period for the business combination at acquisition date and measuring progress in achieving that payback in subsequent reporting periods.

48. During the staff’s outreach, there was not much discussion on the examples listed in the preceding paragraph. Examples of measures provided by preparers included revenue, EBITDA, return on assets, acquisition plan cash flows against actual cash flows and qualitative metrics.

49. Some preparers stated that some decisions for undertaking a business combination could be driven by strategic objectives not by financial objectives, making it hard to quantify whether those objectives are being achieved.

50. Some preparers also stated that they might not monitor the business combination by comparison to the original acquisition plan assumptions. Instead, the acquired business is combined with the existing business and, as part of the business planning cycle, targets are set for the combined business, and are then updated annually. Users stated that if management does not monitor the business combination, that fact itself has information value and should be disclosed. One CMAC member also suggested that requiring disclosure of information about subsequent performance would be an incentive for management to monitor more closely and rigorously whether the key objectives of the business combination are being achieved, thus promoting better corporate governance.

51. Many preparers commented that it can be difficult to track the acquired business after integration. Users mentioned that information on the combined business could still provide some useful information.

52. The staff believe, if the acquired business is subsequently integrated, subsequent monitoring will often be of the combined business and that information prepared on this basis can be useful, particularly where the business combination impacts the combined business through synergies.

53. Some preparers commented that detailed disclosure of the acquirer's post-acquisition intentions for the acquired business and of precise targets or measures could be commercially sensitive. In the staff's view, in most cases an entity should be able to provide the information in a way that avoids disclosing commercially sensitive information and still provides sufficient information to users (eg disclosing the variance against the target along with some qualitative commentary rather than necessarily disclosing the absolute measure).

54. Users have highlighted that information about subsequent performance is relevant in their assessments of management's stewardship of an entity's economic resources. The staff believe that where information is material to users, concerns about commercial sensitivity should not prevent this information being required. The staff plan to include in the Discussion Paper material intended to encourage respondents to provide information that will help the Board to assess how to approach concerns about commercial sensitivity.

55. The outreach confirmed the staff's conclusion that the best way to provide post-acquisition performance information is an approach based on how the entity's management monitors and measures the success of an acquisition internally rather than the prescription of a particular measure. In the reporting period when a business combination occurs, the entity would disclose those measures the CODM plans to use, in future internal reporting, to assess the extent to which the key objectives of the business combination are being achieved and, in subsequent reporting periods, disclose the amounts of those measures to enable users to assess the extent to which the key objectives of the business combination are being achieved. Furthermore, the staff believe if an entity does not monitor the business

combination after the acquisition, it should disclose that fact and the reasons for not monitoring.

56. The staff also think there are various ways in which the achievement of the key objectives could be assessed and a combination of measures could be used. Therefore, some of the measures that an entity uses to assess whether the key objectives of the business combinations are being achieved could be qualitative or non-monetary, and are not necessarily quantitative.

57. Stakeholders mentioned that the measures used to monitor subsequent performance may change, for example, if there is an internal reorganisation. In such cases, the staff think the acquirer should disclose the new measures it plans to use and why it has made that change and then use the new measures in providing information on whether the key objectives of the business combination are being achieved.

58. Finally, the staff think the examples of the measures in paragraphs 47-48, that some preparers use to monitor an acquisition, could be included in the Discussion Paper as background information for respondents.

Should this information be provided in the financial statements or in management commentary?

59. Some preparers and auditors have suggested that some of the information, particularly on the strategic rationale for a business combination and whether the key objectives of the business combination are being achieved, should be included in the management commentary rather than the audited financial statements. In particular, they were concerned that it may be difficult for auditors to report on forecast information and some believe that it might also give rise to a risk of litigation for the entity.

60. Having said that, the staff believe that requiring disclosure of such information in the financial statements would encourage entities to prepare the information more rigorously because of the scrutiny by auditors, ultimately providing more useful information for users than if it were included only in management commentary.

61. Furthermore, not all entities might be subject to a requirement to produce a management commentary and not all management commentaries might be

available to users on the same terms as the financial statements and at the same time.

62. Regarding the concern that providing forecasts or other forward-looking information could give rise to a risk of litigation, the staff believe the ideas would not require the entity to provide detailed quantitative forecasts of future cash flows. An entity can determine how it provides the information, as long as sufficient information is provided to help users to evaluate the extent to which the key objectives of the business combination are being achieved.

63. Since the concerns about providing information about subsequent performance should be able to be addressed in most cases and users have explained the importance of having this information, primarily for assessing stewardship (see paragraph 28), the staff think an entity should disclose such information in the financial statements, rather than in management commentary, to ensure that all entities are required to produce the information.

How long should this information be provided?

64. Users expressed various views on how long such information would be needed, for example:

   (a) for a short period post-acquisition (eg one or two financial periods).

   (b) for as long as expected synergies have yet to be achieved.

65. Preparers also suggested various periods, for example:

   (a) up to three years or until the acquired business cannot be distinguished from the rest of the segment that contains it.

   (b) a much longer period, because in some industries, eg Oil & Gas, a longer period may be necessary to demonstrate whether the key objectives are being achieved.

66. From the feedback received, the staff believe that the information is useful for users for a relatively short period. The staff suggest that the information should be provided for the reporting period in which the business combination occurs and for at least the next two annual reporting periods, but:

(a) if an entity continues to provide the information to its CODM and for as long as it also concludes that this information is still necessary for users to fully assess whether the key objectives of the business combination are being achieved, then the information should continue to be provided; and

(b) if the entity ceases to assess whether the key objectives of a business combination are being achieved prior to the end of the second annual reporting period following the reporting period the business combination occurred, the entity should disclose the reasons for this.

Further analysis following feedback from April 2019 Board meeting

67. As described in paragraphs 41–46 , the staff suggest the information on subsequent performance should be based on how the CODM monitors and measures whether the key objectives of the business combination are being achieved in the entity's internal reporting.

68. Some Board members expressed concerns that the CODM approach might mean information on material business combinations may not be provided and questioned why the staff did not recommend relying on the normal concept of materiality to determine what information needs to be disclosed. For example, when a business combination is monitored at a lower level of management but not by the CODM but information on its subsequent performance is material for users, the CODM approach would not provide users with that information.

69. Of the Board members who expressed concerns, some thought that the threshold at which disclosure would be required should be set at a lower level of management than the CODM and if the information on subsequent performance monitored by that level of management is material, this information should be disclosed.

70. One of the reasons why the staff suggested a CODM approach was that it is familiar to IFRS reporters and already defined in IFRS 8, although admittedly feedback from the PIR of IFRS 8 had highlighted that identifying the CODM could sometimes be difficult. If the threshold is set at a lower level of management, the staff think the Board would need to provide guidance to help

stakeholders identify the level of management this idea is intended to capture and what is meant by ‘monitors’ in this context.

71. In the outreach conducted by staff, some preparers expressed a concern that relying solely on the normal concept of materiality would require highly acquisitive companies to produce such an onerous volume of information that the costs would exceed the benefits to users of financial statements.

72. The staff still think the CODM approach is a reasonable balance between meeting the needs of users and making it feasible for preparers to produce the information at a cost that is justified by the benefit to users. The staff plan to include in the Discussion Paper material intended to encourage respondents to provide information that will help the Board to assess:

(a) what information users consider to be material and whether this aligns with a CODM approach; and

(b) the benefits and costs if the CODM approach would mean material information might not be provided.

73. Of the Board members who expressed concerns, some thought that even if management does not monitor a business combination, some minimum prescribed information on subsequent performance should be provided if the entity concludes that the information is material to users. This would also be the case if the information management does use to monitor a business combination does not meet this minimum. If the Board wished to pursue this idea, it could, for example, require disclosure of revenue and an entity’s measure of profit or loss that it uses in its segment reporting, with commentary or a variance analysis against the entity’s acquisition date expectations for those items for the acquired business, or combined business.

74. Some minimum prescribed information would be consistent, for example, with the management approach taken in IFRS 8, which requires specified disclosures even if they are not provided to the CODM.

75. Nevertheless, the staff continue to think that, as explained paragraph 32, given the great variety of different business combinations, identifying specific measures for subsequent performance that are suitable for all business combinations and satisfy needs of all users would not be feasible. Feedback from outreach also indicated

that both users and preparers agreed that management needs to have flexibility to tailor the disclosures about subsequent performance to the entity-specific circumstances.

76. The staff plan to include in the Discussion Paper material discussing whether the Board should prescribe some minimum disclosure requirements that entities should satisfy if:

(a) the CODM does not monitor the subsequent performance of material business combinations that are individually or collectively material; or

(b) the CODM does monitor the subsequent performance, but the information monitored does not include all information that would be material to users.

Targeted improvements to the existing disclosure requirements of IFRS 3

77. Feedback during the PIR suggested that some existing disclosure requirements of IFRS 3 need to be improved. The staff have also performed a limited review of the existing disclosure requirements of IFRS 3 and suggest that changes in the following areas could contribute to achieving the possible new disclosure objectives of IFRS 3 discussed in paragraphs 18–26:

(a) the amount, or range of amounts, of expected synergies;

(b) separate disclosure of any liabilities arising from financing activities and pension obligations assumed; and

(c) the amounts of the acquiree's revenue, operating profit or loss, and cash flow from operating activities.

78. In addition to the ideas discussed in this paper, the staff believe that there is also scope for some more specific, targeted improvements to disclosure requirements, which the staff consider are best raised in the next phase of the project, in order to focus the Discussion Paper on the key proposals for improved disclosures. Once stakeholder feedback has been received on the Discussion Paper, the Board can consider what other amendments it might wish to propose in an Exposure Draft.

79. Other additional targeted changes could include removal of some existing disclosure requirements in IFRS 3 if the information they provide is not useful.

Further analysis following feedback from April 2019 Board meeting

80. Some Board members expressed concerns that the staff's ideas for better disclosures mainly focus on requiring additional disclosure requirements which would lead to additional costs on preparers. There could be criticism that the Board has not considered whether disclosures can be improved by also removing disclosure requirements that do not result in entities providing useful information.

81. As explained paragraphs 78 and 79, there are other possible targeted changes that could include removal of existing disclosure requirements in IFRS 3 which will be considered after the Discussion Paper. Although, as directed by the Board, the staff do not intend to conduct a full review of IFRS 3 disclosures, the following table shows the existing disclosure requirements that the staff have identified so far that could be candidates for removal in response to the feedback from the PIR of IFRS 3:

Possible removal of existing disclosure requirements	*Brief staff analysis*
B64(q)(ii) the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been at the beginning of the annual reporting period.	• There was considerable feedback from the PIR of IFRS 3, mainly from preparers, questioning the usefulness of this requirement due to its arbitrary nature, lack of guidance on how to prepare it and it is costly to provide. • Whether to delete this requirement and whether to amend the existing disclosure requirement in paragraph B64(q)(i) of IAS 36 are discussed further in paragraphs 104–124.
B64(h) for acquired receivables: (i) the fair value of the receivables; (ii) the gross contractual amounts receivable; and (iii) the best estimate at the acquisition date of the contractual	• IFRS 7 *Financial Instruments: Disclosures* issued after IFRS 3 requires disclosure of information on credit risk of receivables similar to that provided by this requirement. • Feedback during the research project indicated that removing this requirement

cash flows not expected to be collected.	could reduce the costs to preparers without depriving users of useful information.
B67(e) the amount and an explanation of any gain or loss recognised in the current reporting period that both: (i) relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period; and (ii) is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements	• Paragraph 97 of IAS 1 Presentation of Financial Statements requires an entity to disclose the nature and amount of income and expense that are material.

82. The staff also plan to discuss the issue of possible deletions further with the CMAC and GPF at their joint meeting in June 2019 and intend to then seek feedback from respondents to the Discussion Paper on their ideas for possible deletions. The staff plan to include a brief summary of that discussion in the Discussion Paper.

83. Some Board members commented that some of the disclosure requirements in the staff's ideas may result in boiler-plate or insufficient information being provided, for example:

(a) adopting a management approach (rather than prescribed measures) could increase the risk that only boiler-plate information is provided; and

(b) where the information on whether the key objectives of a business combination are being achieved is provided for the combined business and the level of aggregation is too high to be useful.

84. The staff think a disclosure requirement should be added to IFRS 3 requiring an entity to consider the information it intends to disclose and to disclose additional information if its intended disclosures are insufficient to meet the disclosure

objectives. This requirement, along with more specific disclosure objectives, could help limit instances when boiler-plate or insufficient information is provided.

The amount, or range of amounts, of expected synergies

85. Paragraph B64(e) of IFRS 3 requires an entity to disclose a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition, or other factors.

86. Feedback from the PIR of IFRS 3 showed that in applying this requirement entities often provide generic and boiler-plate information which is not useful for users because it does not help them assess the rationale for the business combination and its financial effect.

87. Many CMAC members stated that additional information on the nature, timing and amount of expected synergies would allow users to better understand the transaction, forecast the entity’s financial performance and monitor stewardship.

88. Together with the existing disclosure requirement in paragraph B64(e) of IFRS 3, the staff suggest that an entity should be required to disclose, where synergies from combining operations of the acquiree and acquirer are expected:

    (a) a description of the synergies and of the expected timing of achieving those synergies;

    (b) the amount (or range of amounts) of the synergies; and

    (c) the expected costs (or range of expected costs) to achieve the synergies.

89. Preparers generally acknowledged that providing quantitative information on expected synergies would be useful for users, but some expressed the following concerns:

    (a) it is often difficult to assign values to expected synergies;

    (b) costs of collecting the necessary information to quantify the synergies; and

    (c) the information could be commercially sensitive.

90. If synergies are a significant factor in the transaction, the staff think that information about expected synergies should be readily available because the staff expect that the entity would consider the amount of the expected synergies when deciding how much it is willing to pay for the acquiree.

91. The staff understand that it may be difficult to determine a precise amount for the synergies and that often only a range of amounts is available. In these circumstances an entity should disclose that range.

92. The staff's approach would be to require the amount (or range of amounts) of the expected synergies to be disclosed rather than the value of (or amount paid for) those synergies. Hence, an entity that expects cost synergies of between CU 100–150 million from an acquisition, but due to risks associated with achieving those synergies, the entity-specific nature of some of those synergies and/or good bid negotiation paid only CU 80 million for those synergies, would be expected to disclose a range of CU 100–150 million.

93. This is because the staff believe users want to know what synergies the entity has paid for, so they can assess whether the business combination is a good investment decision. In addition, it may be difficult for an entity to isolate how much of the consideration was paid for particular synergies, given that the negotiation process that occurs in an acquisition and that the acquisition cost is a single price and any allocation of that price across the synergies would be arbitrary.

94. Users have highlighted that information on synergies is important and therefore, in the staff's view, concerns of commercial sensitivity should not be allowed to prevent this information being required, consistent with the conclusions on commercial sensitivity in paragraph 54. However, the staff believe that useful information can be provided to users without the need for an entity to provide precise, detailed information that could be commercially sensitive.

Separate disclosure of any liabilities arising from financing activities and pension obligations assumed

95. The staff understand that some users view the amount of debt and pension obligations assumed in a business combination as part of the total capital employed in the transaction. The feedback from the PIR of IFRS 3 indicated that

it is sometimes difficult for these users to determine the amount of debt and pension obligations of the acquired business assumed in a business combination.

96. Paragraph B64(i) of IFRS 3 requires an entity to disclose the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed. However, some entities include debt and pension obligations assumed in an acquisition within current or long-term liabilities and do not disclose them separately.

97. Amendments to IAS 7 *Statement of Cash Flows* issued in January 2016 require entities to disclose the aggregate amount by which liabilities arising from financing activities changed because of obtaining control of subsidiaries or other businesses. However, the amendments do not require an entity to disclose the change for each business combination separately.

98. Similarly, paragraph 141(h) of IAS 19 *Employee Benefits* requires disclosure of the impact of business combinations on plan assets and the present value of the defined benefit obligation, but this may not result in the disclosure of the change for each business combination separately.

99. The staff suggest stating that liabilities arising from financing activities and pension obligations are always considered to be major classes of liabilities assumed, thereby requiring separate disclosure of any such liabilities assumed in a business combination, if the information is material.

100. The staff think this information will help users to assess the total amount of capital employed in each acquiree and it should not significantly increase costs to preparers because they already have this information in determining what amounts to recognise in accordance with IFRS 3.

101. Feedback from outreach showed general support for this improvement from stakeholders, with users strongly supporting this improvement, although the support for requiring disclosure of pension obligations was not as strong, and with preparers not expressing any objection.

102. Although staff understand that this idea could be considered to be a rules-based change in reaction to (arguably) poor application of the existing disclosure requirement, the staff still believe this requirement to be appropriate. The staff

believe this would be a simple change to make and view this potential amendment as clarifying what information is important to users rather than establishing a rule.

103. An alternative approach would be to try and improve the application of the disclosure requirement and provide, within paragraph B64(i), additional guidance on what a major class is for this disclosure and to provide examples, including liabilities arising from financing activities and pension obligations assumed.

The amounts of the acquiree's revenues, operating profit or loss, and cash flow from operating activities

104. Paragraph B64(q) of IFRS 3 requires an entity to disclose:

    (a) the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and

    (b) the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been at the beginning of the annual reporting period.

105. Paragraph B64(q) also permits an entity not to disclose this information if it is impracticable, and if that fact is disclosed with an explanation of why the disclosure is impracticable.

106. IFRS 3 provides little guidance on how such information should be prepared, and this has led to diversity in practice. For example, the term 'profit or loss of the acquiree' is not defined. Nor is it clear when preparing profit or loss information as if the business combination had occurred at the beginning of the annual reporting period:

    (a) whether acquisition adjustments need to be assumed for the entire annual period (including before the date of the acquisition);

    (b) how those adjustments would be determined;

    (c) whether intercompany transactions occurring before the date of the acquisition should be eliminated;

(d) whether an entity should adjust transactions that might not have occurred or might have occurred on different terms; and

(e) whether benefits from synergies of the business combination should be assumed in the period before acquisition.

107. In addition, if the acquiree’s financial statements had not been prepared in accordance with IFRS or with the acquirer’s accounting policies, retrospective adjustments to the acquiree’s financial information might be required, which could result in additional costs.

108. Users state that they need this information in order to help them predict the future performance of the acquired business and as a starting point to help them monitor the subsequent performance of the acquired business, or combined business.

109. The staff suggest requiring an entity to disclose the amounts of the acquiree’s revenue, operating profit or loss[2] before acquisition-related transaction and integration costs, and cash flow from operating activities, since the acquisition date, included in the consolidated statement of comprehensive income and consolidated cash flow statement for the reporting period.

110. In comparison to the existing disclosure requirement shown in paragraph 104(a), the staff suggestion in the preceding paragraph would (a) define the profit or loss measure and (b) add a requirement to provide cash flow information. In addition, the staff suggest removing the existing requirement to provide information of the combined entity <u>as though</u> the acquisition date for the business combination was the beginning of the annual reporting period (paragraph 104(b)).

111. There were mixed views from users on the information that should be required. Staff heard support for net earnings[3], whereas others would like to have operating profit or loss information and varied views were also heard on whether this should be before acquisition-related costs and/or acquisition related adjustments.

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[2] The meaning of operating profit or loss would follow the definition by the *Primary Financial Statements* project, but be adjusted to exclude any acquisition-related transaction or integration costs.

[3] The staff assume ‘net earnings’ refers to profit or loss as defined by IAS 1 *Presentation of Financial Statements*.

112. As was also the case in the feedback in the PIR of IFRS 3, some preparers participating in the staff's outreach stressed that providing the pro forma information is difficult and costly and they questioned its usefulness.

113. The staff's ideas shown in paragraph 109 would provide more guidance on the information that should be provided. This should reduce diversity in practice and make the information more useful for users. Although different users requested different profit or loss information, the staff believe that operating profit or loss before acquisition-related transaction and integration costs would provide most users with useful information. Excluding the effects of acquisition-related transaction and integration costs would assist in making the information a more relevant starting point for assessments of possible post-acquisition financial performance.

114. Some stakeholders might argue that the information described in paragraph 109 may not be readily available in situations where integration occurs immediately after acquisition. The staff think integration would generally not occur immediately. The staff also think that requiring an operating profit or loss measure as the profit or loss measure means that some of the items that are more difficult to allocate, (eg finance costs, taxation), would not be required to be allocated and therefore this may make it less common that the disclosure is considered to be impracticable.

115. The staff also think providing information on cash flow from the acquiree's operating activities could help users to evaluate the effect of the business combination on the acquirer's (consolidated) cash flows for the current period and to further help users to formulate their expectations of the future returns from the business combination. It will also assist those users who prefer to use cash flow rather than profit measures in their analysis.

116. The objective of providing the information discussed in paragraph 109 is to help users estimate the potential full-year effect of the acquired business so that they can better predict the future performance of the acquired business and to have information to compare that future performance against. Where the operations of the acquired business are subject to significant seasonality, the staff think

sufficient information to help users of its financial statements to understand that seasonality should be provided to enable a full-year effect to be estimated.

117. The staff believe the provision of the information discussed in the preceding paragraph would eliminate the need for the existing requirement to provide revenue and profit or loss of the combined entity as if the business combination had occurred at the beginning of the annual reporting period. Based on the feedback received, this disclosure requirement gives rise to significant costs for preparers and the information provided is only hypothetical. The staff's suggested approach is rooted more in disclosure of the effect of transactions that have actually occurred and not in a counter-factual hypothesis.

118. The staff acknowledge that in some circumstances, a business combination occurs shortly before the end of a reporting period, and the post-acquisition period will, therefore, be so short that information about transactions in that period will be of only limited usefulness if users want to estimate a full-year effect. Additionally, in some circumstances, providing the information discussed in paragraph 109 could be impracticable. If disclosing this information would be impracticable or if, due to the proximity of the acquisition date to the end of a reporting period, the information does not provide users with sufficient information to meet the disclosure objectives of IFRS 3, then the entity would need to consider what further information could be provided to users.

119. In addition, in the circumstances in the preceding paragraph, the staff think entities should be required to provide historic annual information (revenue, operating profit or loss and cash flow from operating activities) for the most recent annual reporting period of the acquired business. In order to make it more practicable and less costly for preparers to provide this information, the staff think entities should be permitted to merely list the material adjustments that would be required to align the information with the acquirer's accounting policies without quantifying those adjustments.

120. The staff believe these proposals could be a pragmatic solution to the feedback received, balancing the information users need with the costs to preparers to provide the information.

Further analysis following feedback from April 2019 Board meeting

121. As explained in paragraphs 104-120, the staff suggest replacing paragraphs B64(q)(i) and B64(q)(ii) of IFRS 3 with the staff's idea of providing the amounts of the acquiree's revenues, operating profit or loss, and cash flow from operating activities since the acquisition date. For the cases where the business combination occurs towards the end of the year and/or where a business is highly seasonal, the staff also suggest requiring additional information to allow users to understand the full-year effect of the business combination, for example, information on seasonality or one year of unadjusted historic financial information for the acquired business with a narrative explanation of major differences caused by using different accounting standards or accounting policies.

122. Some Board members thought that the staff's idea could not fully replace the pro-forma information provided by paragraph B64(q)(ii) of IFRS 3, also noting the equivalent information under US GAAP is required to be provided for two years. Their concern was not that different information would be provided by the pro forma information but that the requirements suggested by the staff may not provide sufficient information for users to understand the full year contribution of all material business combinations.

123. An alternative approach would be, in addition to the staff's idea in paragraph 109, to require an entity to disclose the revenue, operating profit or loss and cash flow from operating activities as if the acquisition date had been at the beginning of the annual reporting period and provide guidance on the calculation of this pro forma information, for example to be consistent with calculation of the post-acquisition result (aligned accounting policies, consistent consolidation principles, pro-rated acquisition accounting adjustments, etc).

124. The existing requirement is to disclose information prepared 'as if the acquisition had occurred at the beginning of the reporting period'. In the staff's view, that requirement is subject to such severe limitations that its usefulness is doubtful. It is unclear how it should be prepared, so is likely to be of variable quality and subject to the inclusion of unknown and unobservable adjustments for hypothetical events. Even if the guidance on how the pro forma information should be calculated is provided, the degree of its quality and the extent of those

adjustments is not likely to be visible to users. Consequently, the staff do not recommend retaining that requirement.

Other disclosures

Disclosures related to other project objectives

125. In the July 2018 Board meeting, the Board also decided to pursue the following objectives:

(a) simplifying accounting for goodwill by exploring whether to:

(i) reintroduce amortisation; and/or

(ii) provide relief from the mandatory annual quantitative impairment testing for goodwill.

(b) improving the estimation of value in use (VIU) by removing from IAS 36:

(i) the restriction that excludes from the estimation those cash flows that are expected to result from a future restructuring or from a future enhancement; and

(ii) the requirement to use pre-tax inputs in the estimation.

126. Depending on the decisions taken by the Board on these objectives, the Board may need to consider additional or amended disclosure requirements not discussed in this paper, such as:

(a) relevant information associated with the amortisation of goodwill such as useful lives, amortisation method and accumulated amortisation;

(b) indicators of impairment that triggered a quantitative impairment test;

(c) the amount of cash flows from future restructurings and future enhancements to which an entity is not yet committed but which are included in the estimation of VIU and the reason why these have been included; and

(d) discount rates that an entity uses in estimating VIU and whether they are pre-tax or post-tax rates.

Disclosure of the amount of equity, less goodwill and some intangible assets

127. The staff considered requiring an entity to disclose:

(a) the amount of equity the entity would have reported if it had not recognised goodwill and some intangible assets acquired in a business combination: those intangible assets that, based on circumstances at the acquisition date would not have been recognised if they had been internally generated; and

(b) the profit or loss an entity would have reported without amortisation and without any impairment losses, on goodwill and on those intangible assets identified in paragraph (a).

128. Providing this information would increase the transparency of the amount included in equity and in profit or loss as a result of the recognition of goodwill and of the intangible assets mentioned in the preceding paragraph. In addition, during the PIR, some users stated that they wanted to remove amortisation of intangible assets to remove the inconsistency between organically growing entities and entities growing by acquisitions, to help them better assess the performance of the acquired business.

129. During the staff's outreach with the ASAF, the staff did not receive any strong support for this disclosure idea. Some ASAF members mentioned that information is readily available and users can make these adjustments themselves. One ASAF member also highlighted that the definition of which intangible assets to capture in this disclosure can differ between users and the disclosure will suit some users but not all users, thus limiting the benefits of disclosing this information.

130. The staff had previously considered a similar idea (see **February 2016 Agenda Paper 18A**) whereby amortisation of intangible assets would be presented separately on the face of the income statement and had similarly not recommended the Board to pursue this idea because the views on which intangible assets would be subject to this presentation would vary by user and industry.

131. Furthermore, the Board has tentatively decided in the *Primary Financial Statements* project to require goodwill to be presented as a separate line item in

the statement of financial position which would make the carrying amount of goodwill more visible.

132. Nevertheless, the staff think that there is a link between these ideas and the decision on whether to reintroduce amortisation. Therefore, the staff think the Board should discuss those ideas at the same time as amortisation.

Further analysis following feedback from April 2019 Board meeting

133. Some Board members agreed with a further suggestion that a sub-total on the statement of financial position highlighting tangible net worth should be investigated further for possible inclusion in a Discussion Paper to seek feedback from stakeholders on whether a sub-total would be useful. Those Board members thought a tangible net worth sub-total would:

(a) use a measure that is already used in, for example, bank covenants;

(b) not add any costs for preparers; and

(c) highlight those assets that on liquidation are harder to fully convert into cash.

134. At various stages of the project, a number of alternatives have been considered for a sub-total in the statement of financial position: before goodwill only, before goodwill and some intangible assets and before goodwill and all intangible assets (tangible net worth). Discussion of the merits and issues of a sub-total before goodwill and some intangible assets is included in paragraphs 127–132.

135. The staff think a sub-total before goodwill and all intangible assets (tangible net worth), although it is a measure that is regularly used, could provide information that in some circumstances could be misleading, where, for example, entities operate in industries with large amounts of intangible assets with finite and well-defined lives.

136. Depending on the Board’s preliminary views on other topics in this project, the Board may want to highlight an entity’s exposure to goodwill for the reasons in paragraph 133, and also because this research project has found that it is not possible to target the acquired goodwill through the design of the impairment test and because of concerns about ‘shielding’ of the acquired goodwill from

impairment by internally generated goodwill and other unrecognised headroom of a CGU.

137. Goodwill is different from other assets. Although goodwill is an economic resource and has the potential to produce economic benefits, direct measurement of goodwill is not possible and therefore, goodwill can only be measured as a residual amount.[4] Goodwill also does not generate cash flows independently of other assets or groups of assets, and often contributes to the cash flows of more than one CGU.

138. Some Board members may believe that the additional prominence created by requiring the presentation of the sub-total discussed in this section is necessary even though the Board now also expects to propose a requirement to present goodwill as a separate line item (see paragraph 131).

139. Paragraph 55 of IAS 1 requires that an entity shall present additional line items (including by disaggregating listed line items) headings and sub-totals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position and this may justify the presentation of this sub-total in the statement of financial position.

140. The staff think that the following approaches to providing this information in the statement of financial position could be considered:

(a) Alternative 1: presenting a sub-total for total assets before goodwill, less total liabilities.

(b) Alternative 2: presenting a sub-total for total equity before goodwill.

(c) Alternative 3(a): presenting a sub-total for total assets before goodwill, less total liabilities as a footnote, or free-standing disclosure, on the face of the statement of financial position.

(d) Alternative 3(b): presenting a sub-total for total equity before goodwill as a footnote, or free-standing disclosure, on the face of the statement of financial position.

[4] The *Conceptual Framework* defines an asset as a present economic resource controlled by the entity as a result of past events. It defines an economic resource as a right that has the potential to produce economic benefits.

141. Alternative 1 presents a sub-total for total assets before goodwill, less total liabilities as follows[5]:

	31 Dec 20X0
ASSETS	
Non-current assets, other than goodwill	CU 300
Current assets	CU 200
Total assets, other than goodwill	CU 500
LIABILITIES	
Non-current liabilities	CU 400
Current liabilities	CU 200
Total liabilities	CU 600
Total assets other than goodwill, less total liabilities	**CU (100)**
Goodwill	CU 300
Total assets, less total liabilities	CU 200
EQUITY	
Total equity	CU 200

142. The *Guidance on Implementing* IAS 1 sets out an illustrative example of the structure of the statement of financial position. A structure of the statement of financial position where total assets equal total equity plus total liabilities is a common presentation structure of the statement of financial position in many jurisdictions and is the basis of the example in the implementation guidance.

143. Alternative 1 would prevent the use of the statement of financial position illustrated in the implementation guidance. This could lead to additional costs and/or problems with local filing requirements.

144. Alternative 2 presents a sub-total for equity, less goodwill as follows:

	31 Dec 20X0
ASSETS	
Non-current assets	
Property, plant and equipment	CU 300
Goodwill	CU 300

[5] For the purposes of illustration only a summary statement of financial position has been presented.

Current assets	CU 200
Total assets	CU 800
EQUITY AND LIABILITES	
EQUITY	
Equity, before goodwill	**CU (100)**
Equity attributable to goodwill	**CU 300**
Total equity	CU 200
LIABILITIES	
Non-current liabilities	CU 400
Current liabilities	CU 200
Total liabilities	CU 600
Total equity and liabilities	CU 800

145. Alternative 2 follows the structure of the statement of financial position in the implementation guidance for IAS 1 and therefore does not cause the same problem as alternative 1, as explained in paragraph 143.

146. However, this approach would not permit total equity to be split into its component parts on the face of the Statement of Financial Position. That split would need to be disclosed in the notes. This may contravene local company law requirements in certain jurisdictions and also may not comply with paragraph 54(q) and 54(r) of IAS 1[6] (or at best make compliance difficult). In addition, it may also not be clear and understandable what the equity attributable to goodwill means.

147. Alternative 3(a) presents a sub-total for total assets before goodwill, less total liabilities as a footnote below the statement of financial position or as a free-standing disclosure after, for example, total assets. This is the simplest and easiest way to provide a sub-total on the statement of financial position since it is not constrained by the structure of the statement of financial position. However, the nature of the information provided by the sub-total and its prominence may be reduced if it is not integrated into the structure of the statement of financial position.

[6] Paragraph 54(q) and 54(r) of IAS 1 requires that the statement of financial position shall present as line items the amounts of non-controlling interests presented within equity and issued capital and reserves attributable to owners of the parent.

148. Alternative 3(b) would present a sub-total for equity, before goodwill and equity attributable to goodwill as a footnote to the statement of financial position or as a free-standing disclosure after total equity. This may address some of the issues associated with alternative 2 and again, as with alternative 3(a), is a simpler approach which is not constrained by the structure of the statement of financial position.

149. The staff think the Board should include a brief discussion of such sub-totals in the Discussion Paper.

Staff recommendations

150. The staff intend to recommend the following improvements to the disclosure objectives and disclosure requirements of IFRS 3 in order to meet the project objective set by the Board in July 2018 of identifying better disclosures for business combinations.

Improving disclosure objectives of IFRS 3

151. To add the following disclosure objectives to the existing disclosure objectives of IFRS 3 to provide users with information:

(a) to evaluate the strategic rationale for the business combination;

(b) to understand the amount of, and evaluate the rationale for, the total consideration transferred to obtain control of the acquiree; and

(c) to evaluate the extent to which the key objectives of the business combination are being achieved.

Additional disclosures on key objectives of a business combination (subsequent performance)

152. Paragraph B64(d) of IFRS 3 be amended to require an entity to disclose:

(a) the strategic rationale for undertaking the business combination, such as how the acquisition links to the acquirer's business strategy; and

(b) the key objectives of the business combination, being the targets management expect to achieve as a result of undertaking the business combination.

153. An acquirer is required to disclose:

(a) in the reporting period when a business combination occurs, what measures the CODM plans to use, in future internal reporting, to assess the extent to which the key objectives of the business combination are being achieved; and

(b) in the reporting period in which the business combination occurs and for at least the next two annual reporting periods, the amounts of those measures being used to assess the extent to which the key objectives of the business combination are being achieved.

Targeted improvements to the existing disclosure requirements of IFRS 3

154. An acquirer shall disclose for each business combination that occurs in the current reporting period:

(a) where synergies from combining operations of the acquiree and acquirer are expected, a description of synergies and of the expected timing of achieving those synergies, the amount (or range of amounts) of the synergies and the expected costs (or range of expected costs) to achieve the synergies (adding to paragraph B64(e) of IFRS 3);

(b) the amounts recognised as of the acquisition date for each major class of identifiable assets acquired and liabilities assumed, stating that liabilities arising from financing activities and pensions obligations are considered to be major classes of liabilities assumed for the purposes of this disclosure requirement (amendment to paragraph B64(i) of IFRS 3); and

(c) the acquiree's amounts of revenue, operating profit or loss[7] before acquisition-related transaction and integration costs, and cash flow from

[7] The meaning of operating profit or loss would follow the definition by the *Primary Financial Statements* project, but be adjusted to exclude any acquisition-related transaction or integration costs.

operating activities, since the acquisition date, included in the consolidated statement of comprehensive income and consolidated cash flow statement for the reporting period (amendment to paragraph B64(q) of IFRS 3).

155. An entity would be required to consider whether the disclosures provided are sufficient to meet the disclosure objectives of IFRS 3 and, where not, additional information would need to be provided.

Question for the Board

Question for the Board
Do Board members have any further comments on the staff's ideas for improvements to the disclosure objectives and disclosure requirements of IFRS 3 for the staff to consider as it develops the papers for the June 2019 Board meeting where the Board will determine its preliminary views, if any, to express in the Discussion Paper?