
IASB[®] meeting

Date **January 2023**
Project **Business Combinations—Disclosures, Goodwill and Impairment**
Topic **Exemption from disclosure requirements**
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Purpose and structure

1. In [September 2022](#) the International Accounting Standards Board (IASB) tentatively decided to propose exempting an entity in specific circumstances from disclosing some information that would be required applying the IASB's proposals to improve the disclosure requirements in IFRS 3 *Business Combinations*. This paper asks the IASB to make tentative decisions about some aspects of how that exemption would work.
2. The structure of this paper is as follows:
 - (a) Summary of staff recommendations (paragraphs 3–4);
 - (b) Background (paragraphs 5–8); and
 - (c) Staff analysis and recommendations (paragraphs 9–41), including:
 - (i) Design of the exemption (paragraphs 10–32) and
 - (ii) Information to which the exemption applies (paragraphs 33–41).

Summary of staff recommendations

3. We recommend the IASB draft the exemption from disclosing information the IASB tentatively decided to propose in September 2022 to include:

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- (a) a principle for the exemption that would allow an entity to not disclose a particular item of information in situations in which disclosing that item of information can be expected to prejudice seriously any of the entity's objectives for the business combination; and
 - (b) application guidance, that would require an entity to:
 - (i) Consider factors (for example the effect disclosing the information would have and the availability of the information) in determining whether the exemption is applicable;
 - (ii) Consider whether it is possible to disclose information at a sufficiently aggregated level that would resolve concerns while still meeting the objectives of the disclosure requirements;
 - (iii) Disclose the reason for applying the exemption for each item of information; and
 - (iv) Reassess in each reporting period whether the situation that gave rise to the exemption still exists. If the situation no longer exists, the entity should be required to disclose the item of information previously exempted. An entity would be required to perform that reassessment for as long as the entity would otherwise be required to disclose information about the subsequent performance of the business combination.
4. We also ask the IASB to clarify one aspect of its tentative decisions in September 2022.

Background

5. At its September 2022 meeting, the IASB tentatively decided to propose:
- (a) adding two new disclosure objectives to IFRS 3 that would require an entity to disclose information to help users of financial statements understand:

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- (i) the benefits that an entity expected from a business combination when agreeing the price to acquire a business; and
 - (ii) the extent to which an entity's objectives for a business combination are being met.
 - (b) replacing the requirement for an entity to disclose the 'primary reasons for the business combination' in paragraph B64(d) of IFRS 3 with a requirement to disclose the 'strategic rationale for undertaking the business combination';
 - (c) adding to IFRS 3 a requirement for an entity to disclose in the year of a business combination quantitative information about expected synergies; and
 - (d) for 'strategically important' business combinations, to require an entity to disclose information about:
 - (i) the entity's objectives for the business combination;
 - (ii) the metrics and targets the entity's management will use to monitor whether those objectives are being met; and
 - (iii) in subsequent periods, the extent to which the entity's objectives are being met, using those metrics, for as long as the entity's management monitors the business combination against its objectives.
6. The IASB tentatively decided to propose an exemption in specific circumstances that would permit an entity not to disclose information about:
- (a) the entity's objectives for a business combination;
 - (b) the metrics and targets the entity's management will use to monitor whether the objectives for the business combination are being met; and
 - (c) quantitative information about synergies expected to arise from the business combination.
7. The IASB tentatively decided to propose no exemption from disclosing information about:
- (a) the strategic rationale for a business combination; and

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- (b) the actual performance in subsequent periods measured using the metrics the entity's management uses to monitor whether the objectives for the business combination are being met.
8. The IASB did not vote on specific details relating to the design of the exemption. Instead, the IASB gave direction on the design of the exemption and in particular, directed us to:
- (a) allow the exemption in situations in which disclosing an item of information can be expected to prejudice seriously any of the entity's objectives for the business combination; and
 - (b) supplement the exemption with application guidance.

Staff analysis and recommendations

9. Our analysis and recommendations focus on the following aspects:
- (a) the design of the exemption (paragraphs 10–32), including:
 - (i) the overall principle (paragraphs 11–12); and
 - (ii) application guidance (paragraphs 13–31); and
 - (b) information to which the exemption applies (paragraphs 33–41).

Design of the exemption

10. As noted in paragraph 8, in September 2022 the IASB gave us guidance on designing the exemption. This section discusses how the IASB could design the exemption to include a principle and related application guidance.

Principle

11. In [Agenda Paper 18C](#) to the IASB's September 2022 meeting, we recommended allowing an entity not to disclose a particular item of information if disclosing that item of information can be expected to prejudice seriously any of the entity's

objectives for the business combination. Paragraphs 5–23 of that paper discusses the reasons for our recommendation.

12. During the meeting, all IASB members agreed to propose an exemption in specific circumstances and with the direction of the design of the exemption (see paragraph 8). Although IASB members generally agreed with the principle, the IASB did not vote on the specific wording of the principle. Therefore, at this meeting we ask the IASB if it agrees with our recommendation to include a principle that would allow an entity not to disclose a particular item of information if disclosing that item of information can be expected to prejudice seriously any of the entity’s objectives for the business combination.

Application guidance

13. In [Agenda Paper 18C](#) to the IASB’s September 2022 meeting we recommend supplementing the exemption with application guidance, including:
- (a) requiring an entity to:
 - (i) consider whether it is possible to disclose information at a sufficiently aggregated level that would resolve concerns while still meeting the objectives of the disclosure requirements;
 - (ii) disclose the reason for applying the exemption separately for each item of information; and
 - (iii) assess in future periods whether the circumstances leading to the application of the exemption still exist.
 - (b) specify situations in which the exemption would not be permitted, including:
 - (i) a general risk of a potential weakening of competitiveness due to disclosure is not, on its own, sufficient reason to apply the exemption;
 - (ii) the exemption should not be applied to avoid disclosing information only because that information may not be considered favourably by the market;

- (iii) the information is disclosed in other publicly available material; and
 - (iv) if competitors are already likely to have access to the information from public or non-public documents or other sources, or would be unable to act on the information in a manner that can be expected to prejudice seriously any of the entity's objectives for the business combination.
14. At the meeting in September 2022 IASB members generally agreed with our recommendations but asked us to clarify two aspects:
- (a) whether some of the items in paragraph 13(b) would be better described as factors an entity should consider when applying the exemption rather than situations in which the entity would not be permitted to apply the exemption (paragraphs 15–22);
 - (b) the time period for which the exemption would be available (paragraphs 23–31)

Factors for consideration when applying the exemption

15. In the September 2022 IASB meeting, some IASB members disagreed with specifying situations in which an entity would not be permitted to apply the exemption. Those IASB members said:
- (a) specifying such situations would be too prescriptive and would not be aligned with the principle-based approach used in IFRS Accounting Standards; and
 - (b) some of the recommended application guidance could be difficult to apply because:
 - (i) there is a lack of clarity about what constitutes 'publicly available material' (paragraph 13(b)(iii)); and
 - (ii) it could be difficult to assess what information an entity's competitor has access to and how an entity's competitors may act upon that information (paragraph 13(b)(iv)).

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16. We developed the application guidance described in paragraph 13 after considering application guidance used in regulations that include an exemption from disclosing commercially sensitive information. We think this application guidance will help to ensure the robustness and enforceability of the exemption.
 17. However, we recognise concerns about the wording of the application guidance and being prescriptive about the situations in which an entity cannot apply the exemption. We think these concerns can be dealt with by specifying factors an entity would be required to consider in determining whether it would be appropriate to apply the exemption. This would give the items in paragraph 13(b) the status of factors to consider rather than a prescriptive list of situations in which applying the exemption would not be permitted.
 18. Nevertheless, we think it would be helpful to include some of the situations in paragraph 13(b) as illustrations of how an entity might conclude when assessing specific factors. We think this would help retain some of the rigour we intended in [Agenda Paper 18C](#) to the IASB's September 2022 meeting. For example, we think an entity should have a specific and determinable reason for using the exemption and should not be permitted to use the exemption when disclosing the information would have only a general risk of a potential weakening of competitiveness.
 19. We understand concerns about the entities not knowing what information competitors have access to (paragraph 13(b)(iv)). We think it would be sufficient for an entity to consider only its own actions and consequently, consider information the entity has made public rather than specifically requiring an entity to consider what information its competitors have access to.
 20. We also note the IASB has discussed 'public communication' in the context of management performance measures as part of its Primary Financial Statements project. In the Exposure Draft *General Presentation and Disclosures* the IASB proposed to require an entity to consider 'public communications outside financial statements, for example, in management commentary, press releases or in investor presentations' when identifying management performance measures.

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21. In [November 2021](#) the IASB tentatively decided to narrow the scope of public communications considered for the purposes of applying the definition of management performance measures, by excluding oral communications, transcripts and social media posts. We think the IASB could use the phrase ‘public communication’ as part of the application guidance on the exemption. We will communicate with staff working on the Primary Financial Statements project to ensure consistency in wording.
22. We are not asking for comments on drafting at this meeting. However, for illustrative purposes, we think the application guidance around factors to consider could be drafted along the following lines:

To determine whether an item of information is eligible for the exemption described in paragraph X, an entity should consider, as a minimum, the following factors:

(a) the effect disclosing the information would have—an entity should be able to identify a specific reason for not disclosing the information. A general risk of a potential weakening of competitiveness due to disclosure is not, on its own, sufficient reason to apply the exemption. An entity should not use the exemption in paragraph X simply to avoid disclosing information only because that information may not be considered favourably by the market.

(b) the availability of the information—for example, if an entity has made the information available in a public communication, it would not be appropriate to apply the exemption described in paragraph X to that information. Examples of public communication include press releases, investor presentations and regulatory filings made by the entity that are available to the public.

(c) the ability of competitors to act on the information—an entity should consider whether it is feasible for its competitors to act on

the information. An entity's competitor might not be able to act on the information because, for example, it does not operate with enough scale in a particular jurisdiction.

The time period for which the exemption would be available

23. In September 2022 a few IASB members commented on the time period over which an entity would be able to apply the exemption. In particular, IASB members asked:
- (a) whether an entity would be required to make 'catch-up' disclosures when the exemption is no longer applicable (paragraphs 24–28); and
 - (b) whether an entity should be required to disclose, when using the exemption, how long it expects to use the exemption—a 'sunset clause' (paragraphs 29–31).

Catch-up disclosures

24. As noted in paragraph 13(a)(iii), in September 2022 we recommended requiring an entity to assess in future periods whether the circumstances leading to the application of the exemption still exist.
25. Our intention was to require an entity to consider in each reporting period whether the application of the exemption remains appropriate. If the circumstances that justified the use of the exemption in a prior period for a particular item of information no longer exist, the entity would be required to disclose the item of information previously exempted.
26. We can make our intention clear when drafting the application guidance.
27. However, the usefulness of the 'catch-up' information can diminish over time. For example, consider a situation in which an entity's management stops monitoring the performance of a business combination three years after the business combination. The entity concluded the exemption applies to one of its targets for the business combination and consequently, did not disclose information about that target during those three years. If the circumstance giving rise to the entity's use of the exemption

ends eight years after the business combination, we think the information value of disclosing that target, long after the entity has stopped monitoring the business combination, is low.

28. Therefore, in our view, the IASB should set a time limit for how long an entity is required to reassess whether the conditions requiring the use of the exemption continue to exist. We think an entity should be required to reassess the conditions requiring the use of the exemption for as long as the entity would otherwise be required to disclose information about the subsequent performance of the business combination.¹

Sunset clause

29. One IASB member suggested requiring an entity to disclose on initial application of the exemption how long the entity expects to use the exemption for. At the end of that period the entity would either need to disclose the item of information to which the exemption was applied or justify why the exemption was still needed. In that IASB member's view including a sunset clause would make the application of the exemption more rigorous.
30. A requirement for an entity to consider in each reporting period whether the application of the exemption remains appropriate (our recommendation at the September 2022 meeting—see paragraph 13(a)(iii) of this paper) and a sunset clause are both aimed at improving the rigour in which entities apply the exemption. The only difference between our September 2022 recommendation and a sunset clause is that a sunset clause would additionally require an entity to disclose, when the exemption is initially applied, the amount of time management expect to apply the exemption to the item of information. We think requiring an entity to reassess the

¹ At a future meeting the IASB will discuss how long information about the subsequent performance of business combinations should be required for. The IASB's preliminary view was to require that information to be disclosed for as long as the entity's Chief Operating Decision Maker continues to monitor whether the objectives of the acquisition are being met. If the entity's Chief Operating Decision Maker stops monitoring the business combination before the end of the second full year after the year of acquisition, the entity should be required to disclose that fact and the reasons why it stopped monitoring the business combination.

conditions leading to the exemption each reporting period would provide more rigour than a sunset clause because a sunset clause might incentivise management to:

- (a) disclose a longer period of time for using the exemption than necessary; and
- (b) wait until the end of the period for which it disclosed the exemption is needed before disclosing the item of information, even if the circumstances for which the exemption was needed no longer exist before that date.

31. In addition, we think information about how long an exemption is expected to be needed for could be seen by some entities as commercially sensitive information.

Staff recommendation

32. We recommend the IASB design the exemption from disclosing information to contain:
- (a) a principle for the exemption that would allow an entity to not disclose a particular item of information in situations in which disclosing that item of information can be expected to prejudice seriously any of the entity's objectives for the business combination.
 - (b) application guidance, that would require an entity to:
 - (i) Consider factors (for example those illustrated in paragraph 22) in determining whether the exemption is applicable;
 - (ii) Consider whether it is possible to disclose information at a sufficiently aggregated level that would resolve concerns while still meeting the objectives of the disclosure requirements;
 - (iii) Disclose the reason for applying the exemption for each item of information; and
 - (iv) Reassess in each reporting period whether the situation that gave rise to the exemption still exists. If the situation no longer exists, the entity should be required to disclose the item of information previously exempted. An entity would be required to perform that reassessment

for as long as the entity would otherwise be required to disclose information about the subsequent performance of the business combination.

Question 1— Design of the exemption

1. Do IASB members agree with our recommendation to:
 - (a) include a principle that allows an entity not to disclose a particular item of information if disclosing that item of information can be expected to prejudice seriously any of management's objectives for the business combination?
 - (b) include application guidance as described in paragraph 32(b)?

Information to which the exemption applies

33. At the September 2022 meeting, the IASB tentatively decided to exempt an entity from disclosing the information in paragraph 6. As noted in paragraph 7, the IASB decided not to exempt an entity from disclosing the actual performance in subsequent periods measured using the metrics management uses to monitor whether the objectives for the business combination are being met.
34. At that meeting, we recommended the IASB require an entity to disclose a qualitative statement as to whether the actual performance of the business combination met the entity's target. For example, assume an entity's target for a business combination is to increase revenue by CU100 million each reporting period and the entity applies the exemption not to disclose that target. In subsequent periods, the entity would disclose the actual increase in revenue for that period (say CU98 million) and a qualitative statement as to whether that increase of CU98 million met the entity's target.
35. A qualitative statement as to whether an entity met its target for a business combination would be particularly relevant in situations in which an entity, applying the proposed exemption, does not disclose its objective and/or target for a particular business combination.

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36. Paragraph 30 of [Agenda Paper 18B](#) to the IASB's September 2022 meeting explained the reason for our recommendation. In our view information about the actual performance in subsequent periods would not be useful in isolation without any context of the entity's target. The qualitative statement would also contribute to meeting the proposed disclosure objective (see paragraph 5(a)).
37. We accept that in some circumstances information about the target could be considered commercially sensitive and an entity might have applied the exemption to not disclose that information. Nonetheless, we expect an entity to be able to make a qualitative statement as to whether the level of performance met the entity's target for the business combination without disclosing commercially sensitive information about the target.
38. At the September 2022 meeting, only five out of eleven IASB members voted to not exempt an entity from disclosing a qualitative statement as to whether the level of performance met the target—that is, a majority of the IASB members did not vote in favour of the staff recommendation in paragraph 34. At that meeting:
- (a) A few IASB members were concerned that the qualitative statement could result in an entity disclosing commercially sensitive information. In particular, those IASB members said an entity might need to disclose more than a simple qualitative statement which could result in an entity disclosing commercially sensitive information—for example, if the performance of a business combination is slightly lower than the entity's target, the entity might want to disclose how close it came to meeting the target rather than disclosing only that it didn't meet the target; and
 - (b) A few other IASB members said that disclosing subsequent performance information would not be meaningful if the entity did not disclose how the actual performance of the business combination compared to the entity's target.
39. We think the IASB members not voting in favour of our recommendation could have intended either of the following alternatives:

- (a) an entity should be required to disclose a qualitative statement as to whether the actual performance in subsequent periods met the target and be exempted from disclosing that statement in specific circumstances; or
 - (b) an entity should not be required to disclose a qualitative statement as to whether actual performance in subsequent periods met the target.
40. Based on the discussion in September 2022 and the other votes the IASB made at that meeting (see paragraphs 5–8) we think the IASB intended the meaning in paragraph 39(a)—that is, to require an entity to disclose a qualitative statement as to whether the level of performance met the target. However, an entity would be able to apply the exemption from disclosing that statement in specific circumstances. We think the alternative in paragraph 39(a) would also more closely align with the proposed disclosure objective (see paragraph 5(a)) than the alternative in paragraph 39(b).
41. To assist us in drafting the proposed exemption, we are asking the IASB to confirm whether our understanding is correct.

Question 2—Information to which the exemption applies

2. Does the IASB think that an entity should:
- (a) be required to disclose a qualitative statement as to whether actual performance in subsequent periods met the target and be exempted from disclosing that statement in specific circumstances; or
 - (b) not be required to disclose a qualitative statement as to whether actual performance in subsequent periods met the target.