IFRS Accounting

Staff paper

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Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Performance information subset—approach**
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Introduction

1. As Agenda Paper 18 explains, this paper analyses whether to retain a subset approach and, if so, how to identify the subset. Agenda Paper 18B analyses feedback on the proposed thresholds and other matters related to the identification of a subset of business combinations.

2. The paper is structured as follows:
   (a) background (paragraphs 4–5);
   (b) whether to retain a subset approach (paragraphs 6–10);
   (c) approach to identifying the subset (paragraphs 11–35);
   (d) summary of staff initial views and next steps (paragraphs 36–38); and
   (e) question for the IASB.

3. This agenda paper does not ask the International Accounting Standards Board (IASB) to make any decisions.

Background

4. In its Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (Exposure Draft), the IASB proposed to require an entity to disclose performance information for only a subset of business combinations—which the Exposure Draft referred to as strategic[1] business combinations. This includes information about:
   (a) an entity's acquisition-date key objectives and related targets (KOTs); and
   (b) the extent to which those KOTs are being met in subsequent periods.

5. Paragraphs BC45–BC73 of the Basis for Conclusions to the Exposure Draft (Basis for Conclusions) explain the IASB's rationale for requiring information for only a subset of business combinations and for proposing a threshold approach for identifying that subset of business combinations.

Whether to retain a subset approach[2]

6. As paragraphs BC45–BC55 of the Basis for Conclusions explain, the IASB intended to require an entity to disclose performance information for only the most important business combinations, while also addressing stakeholder concerns about the volume of disclosures being costly and onerous. As paragraph BC52 of the Basis for Conclusions notes, requiring performance information for only a subset of business combinations would help balance users' need for information with the costs of disclosing that information.

[1] The Exposure Draft referred to the subset of business combinations as 'strategic' business combinations. However, as paragraphs 51–53 of Agenda Paper 18B explain, we acknowledge and will consider respondents' concerns about the use of the term 'strategic'. This paper uses the term 'strategic' for simplicity.

[2] This paper only analyses the Exposure Draft's proposal to require disclosure of performance information for only a subset of business combinations. We plan to analyse suggestions to also apply a subset approach to requiring disclosure of expected synergy information when we redeliberate expected synergy information.

Feedback summary

7. As paragraphs 8 and 10 of Agenda Paper18C in the IASB's December 2024 meeting (December agenda paper) note:

   (a) respondents generally supported requiring an entity to disclose performance information for only a subset of business combinations for reasons considered by the IASB; and

   (b) a few respondents disagreed and said performance information about all material business combinations would be useful.

Staff analysis

8. We disagree with the view in paragraph 7(b) of this paper. We think requiring performance information for all material business combinations could result in the volume of disclosures being onerous for preparers and obscure other material information in financial statements.

9. Considering the feedback, we think that:

   (a) an entity should be required to disclose performance information for only a subset of business combinations—in particular, the most important business combinations; and

   (b) requiring disclosure of performance information for only a subset of business combinations is an appropriate way of addressing stakeholder concerns about the volume of disclosures being costly and onerous.

10. In our initial view, we think the IASB should continue to require disclosure of performance information for only a subset of business combinations.

Approach to identifying the subset

11. Assuming the IASB agrees with our initial view to require performance information for only a subset of business combinations—that is, the most important business combinations—it would need to decide how to identify that subset.

12. As paragraphs BC56–BC61 of the Basis for Conclusions explain, the IASB proposed requiring an entity to identify that subset of business combinations by applying a threshold approach. In developing its proposal, the IASB considered whether to identify the subset of business combinations by applying a threshold approach or by applying an open list of indicators (open-list approach). An open-list approach would involve adding to IFRS 3 a description of the subset of business combinations and supplementing that description with an open, non-exhaustive list of indicators an entity would consider when assessing whether a business combination meets that description. Paragraphs BC60–BC61 of the Basis for Conclusions explain the IASB's rationale for proposing a threshold approach.

Feedback summary

13. As paragraphs 11–13 of the December agenda paper note, respondents had different views on the proposed threshold approach:

    (a) many agreed with a threshold approach[3] and said a threshold approach:

        (i) is practical, easy-to-implement and balances costs and benefits; and

        (ii) can be applied consistently and enforced.

    (b) many disagreed with using a threshold approach and suggested adopting a more principles-based approach. Some of these respondents said a more principle-based approach would:

[3] This includes all stakeholders who agreed with any form of threshold approach—Agenda Paper 18B analyses feedback on the proposed thresholds.

(i) align with the principle-based approach used for developing IFRS Accounting Standards.

(ii) clarify the intention and rationale for requiring an entity to disclose performance information for a business combination. This would help preparers apply appropriate judgements in determining which business combinations to disclose performance information about.

(iii) prevent structuring business combinations to meet or avoid meeting the proposed thresholds.

14. Respondents suggested different ways to develop a principle-based approach:

(a) many suggested a rebuttable presumption approach (see paragraphs 19–24);

(b) some suggested an indicator-based approach (see paragraphs 25–30);

(c) a few suggested a definition-only based approach (see paragraphs 31–33);

(d) a few suggested allowing management to exercise discretion (see paragraphs 34–35); and

(e) a few suggested adding a catch-all provision (paragraph 17).

Staff Analysis

15. Our analysis below considers separately feedback on the threshold approach and each of the other different approaches suggested by respondents. The suggestion in paragraph 14(e) relates specifically to the threshold approach and we have analysed it as part of our analysis on the threshold approach (see paragraph 17).

Threshold approach

16. We acknowledge respondents' reasons for agreeing or disagreeing with a threshold approach (see paragraph 13). The feedback is similar to feedback the IASB considered when developing the proposals (see paragraphs BC56–BC62 of the Basis for Conclusions).

17. We disagree with the suggestion to include a 'catch-all' provision as part of a threshold approach to ensure all strategic business combinations are captured, even if they do not meet any of the thresholds. Including such a provision would increase the cost of applying this approach and make this approach similar to the rebuttable presumption or indicator-based approach which are considered below.

18. We think refining some of the proposed thresholds could reduce the risk of transactions being inappropriately captured by the requirements. However, before reaching a staff view on whether to recommend retaining a threshold approach, we will consider feedback on the specific thresholds proposed in the Exposure Draft and the relative merits and demerits of this approach compared to other approaches. Agenda Paper 18B provides our initial analysis of feedback on the specific thresholds and explains our next steps.

Rebuttable presumption approach

19. Many respondents suggested applying a rebuttable presumption approach. These respondents suggest identifying thresholds (for example, the thresholds proposed in the Exposure Draft) with a rebuttable presumption that performance information would be disclosed for a business combination meeting those thresholds[4].

20. These respondents said this approach would avoid thresholds inappropriately capturing non-strategic business combinations within the scope of the disclosure requirements. Some of these respondents suggested requiring an entity that rebuts the presumption to disclose the fact that it has rebutted the presumption and the reason for the rebuttal. Adopting a rebuttable presumption approach would require the IASB:

    (a) to develop a list of thresholds with a presumption that performance information would be disclosed for a business combination that meets any one or a combination of the specified thresholds. The IASB could leverage the

[4] Most respondents did not specify whether the rebuttable presumption approach should also require an entity to consider rebutting the presumption and disclosing performance information for a business combination that would not meet the specified thresholds.

work done/ being done on the thresholds approach (see paragraphs 4–41 and Agenda Paper 18B) to develop this list of thresholds.

(b) to design a basis on which an entity could rebut the presumption that performance information should be disclosed for a business combination meeting the specified thresholds. The IASB could design the basis for rebuttal by, for example:

   (i) describing or defining the subset of business combinations for which performance information should be disclosed;[5] or

   (ii) requiring entities to determine whether disclosing performance information would require undue cost or effort.[6]

(c) to consider whether to require an entity to consider rebutting the presumption and disclosing performance information for a business combination that does not meet the specified thresholds.

(d) to consider whether to require an entity that rebuts the presumption to disclose that it has done so and the reasons why.

Pros and cons of a rebuttable presumption approach

21. We acknowledge respondents' rationale for suggesting a rebuttable presumption approach and agree that such an approach could avoid inappropriately capturing non-strategic business combinations. We also note other IFRS Accounting Standards require an entity to apply a rebuttable presumption approach, for example:

(a) paragraph 5.5.11 of IFRS 9 *Financial Instruments* specifies that credit risk on a financial asset is presumed to have increased significantly since initial recognition when contractual payments are more than 30 days past due;

[5] Paragraph BC54 of the Basis for Conclusions described a strategic business combination as a business combination "for which failure to meet any one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy". Paragraph BC55 explains further the IASB's view of the business combinations it was trying to capture. We might consult on whether using a definition similar to the description included in paragraph BC55 could work for the purposes of the rebuttable presumption approach.

[6] This would be similar to the approach the IASB adopted in paragraph 5.5.9 of IFRS 9 *Financial Instruments* relating to assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, which requires an entity to "…consider reasonable and supportable forward-looking information, that is available without undue cost or effort…".

(b) paragraph 13 of IFRS 2 *Share-based Payment* specifies there shall be a rebuttable presumption that the fair value of the goods or services received can be estimated reliably when measuring equity-settled share-based payments; and

(c) paragraph 5 of IAS 28 *Investments in Associates and Joint Ventures* specifies that an entity is presumed to have significant influence over another entity if the entity has at least 20% shareholding in that other entity.

22. However:

(a) it might be difficult to design a basis on which an entity could rebut the presumption (see paragraph 20(b)).

(b) a rebuttable presumption approach might be more difficult to apply, audit and enforce than the thresholds approach. The approach would require an entity to exercise judgement, and in some cases there might not be enough objective evidence to determine whether to rebut the presumption. The increased cost could run counter to one of the IASB's objectives for requiring performance information for only a subset of business combinations—reduced cost of applying the proposed disclosure requirements.

23. The following application aspects may also affect the overall cost-benefit balance of this approach:

(a) whether to require an entity to consider rebutting the presumption and disclosing performance information for a business combination that does not meet the specified thresholds[7]. In our initial view, requiring an entity to do so might:

[7] This would be similar to the approach the IASB has adopted in IAS 28, where an entity would be required to rebut the presumption that shareholding of less than 20% does not constitute significant influence if such influence can be clearly demonstrated.

(i) help with enforcement and prevent potential abuse by allowing auditors and regulators to step in if there is evidence that information should be disclosed about a business combination not meeting the thresholds;

(ii) increase the cost for preparers as an entity would need to assess each business combination for evidence for rebuttal; and

(iii) increase the level of judgement required in applying this approach and thereby create tension among preparers, auditors and regulators;

(b) whether to require an entity disclose the fact that it has rebutted the presumption and the reason for rebuttal. In our initial view, requiring the disclosure of the fact and reason for rebuttal might:

(i) provide users with additional information for their analysis;

(ii) highlight business combinations that users might wish to pay close attention to;

(iii) give rise to commercial sensitivity concerns; and

(iv) result in boiler-plate information.

Plans for further consultation

24. Before reaching a staff view on whether to recommend a rebuttable presumption approach, we plan to: (a) consult on application aspects and cost-benefit balance of a possible rebuttable presumption approach and (b) assess the relative merits and demerits of this approach compared to other approaches. Aspects we might consult on include:

(a) how to design the basis for rebuttal (paragraph 20(b))—for example, how to describe or define the population of strategic business combinations;

(b) whether to require an entity to consider rebutting the presumption and disclosing performance information for a business combination that does not meet the specified thresholds (paragraph 20(c));

(c) whether to require an entity to disclose the fact and reason for any rebuttal (paragraph 20(d)); and

(d) whether the benefits of applying a rebuttable presumption approach (see paragraph 21) would outweigh the costs of doing so (see paragraph 22(b)).

Indicator-based approach

25. Some respondents suggested adopting an indicator-based approach similar to the open-list approach considered by the IASB (see paragraph 12). Such an approach would involve describing or defining a strategic business combination and supplementing that description with an open list of indicators an entity would consider when assessing whether a business combination is strategic. The indicators would be neither individually determinative nor collectively exhaustive.

26. These respondents said an indicator-based approach would allow entities to cater to their own unique circumstances while aligning with the management approach adopted for disclosing performance information. Some of these respondents suggested using the description of a strategic business combination in paragraph BC54 of the Basis for Conclusions to define a strategic business combination.

27. We acknowledge respondents' rationale for suggesting an indicator-based approach and we agree that, similar to a rebuttable presumption approach, an indicator-based approach could avoid inappropriately capturing non-strategic business combinations. We also note other IFRS Accounting Standards apply a similar approach, for example:

(a) paragraphs 63–64 of IFRS 16 *Leases* specify indicators of a finance lease;

(b) paragraphs 9–11 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* specify factors an entity considers when determining its function currency; and

(c) paragraphs 12–14 of IAS 36 *Impairment of Assets* specify indicators that an asset may be impaired.

28. However, similar to the IASB's rationale for not proposing the open-list approach (see paragraph BC60 of the Basis for Conclusions) and our concerns about a rebuttable presumption approach (see paragraph 21–22 of this paper), we think the disadvantages of an indicator-based approach include:

    (a) it may be difficult to devise an open list of indicators that are distinguishable from factors that an entity would consider when applying materiality. Any such list could be viewed as guidance for entities to identify 'material business combinations' within the scope of IFRS 3.

    (b) similar to a rebuttable presumption approach, an indicator-based approach might be more difficult to apply, audit and enforce than a threshold approach. An indicator-based approach would require an entity to exercise judgement, and in some cases there might not be enough objective evidence to determine whether a business combination is strategic. The increased cost could run counter to one of the IASB's objectives for requiring performance information for only a subset of business combinations—reduced cost of applying the proposed disclosure requirements.

    (c) it might be difficult to describe or define the population of business combinations.

29. We think a rebuttable presumption approach and an indicator-based approach share many similar advantages and disadvantages. We think feedback from consultation on the proposed thresholds (see Agenda Paper 18B) and a rebuttable presumption approach (see paragraph 24) might also be relevant to our analysis and conclusions on an indicator-based approach. For example, the work done/ being done around the possible definition and on the thresholds could inform the indicators that could be used in an indicator-based approach.

30. We will develop our view on whether to recommend an indicator-based approach after completing the above consultations and assessing the relative merits and demerits of this approach compared to other approaches.

Definition-only based approach

31. A few respondents suggest using the description of a strategic business combination in paragraph BC54 of the Basis for Conclusions (see paragraph 26) to define a strategic business combination and allowing management to assess whether a business combination is strategic based solely on that definition.

32. While this approach could, similar to the indicator-based approach, avoid inappropriately capturing non-strategic business combinations, we think such an approach would be difficult to apply, audit and enforce. In addition to our concerns about the indicator-based approach (see paragraph 28–29), assessing whether a business combination meets the definition in absence of any indicators to assist with applying that definition could be:

    (a) highly subjective; and

    (b) not applied consistently resulting in diversity in practice.

33. Consequently, we think the IASB should not pursue this approach and we do not plan to analyse it further.

Management discretion approach

34. A few respondents, mostly preparers and preparer groups, suggested allowing management to decide whether to disclose performance information for a business combination. They said management would be in the best position to determine the business combinations for which a user would benefit from receiving performance information about.

35. We think it is important for the identification of business combinations to be rigorous and consistent. A management discretion approach risks inconsistent identification of such business combinations and consequently, in users not getting the information they need about the most important business combinations. The approach could also risk creating tension among preparers, auditors and regulators. Consequently, we think the IASB should not pursue this approach and do not plan to analyse it further.

Summary of staff initial views and next steps

36. In our initial view, we think the IASB should retain its proposal to require an entity disclose performance information for only a subset of its business combinations.

37. We have not reached a staff view on the approach to identify the subset (that is, a threshold approach, a rebuttable presumption approach or an indicator-based approach). Before reaching a staff view, we plan to consult on specific thresholds (see Agenda Paper 18B) and aspects of a rebuttable presumption approach (paragraph 24) which could also inform our views on an indicator-based approach. We intend to do no further work on the definition-only based (paragraphs 31–33) and management discretion (paragraphs 34–35) approaches.

38. As Agenda Paper 18 explains, we will use feedback from consultations (on the topics in this paper and Agenda Paper 18B) to inform further analysis and reach a recommendation. We will present the feedback, our updated analysis and our recommendation at a future IASB meeting.

Question for the IASB
Do IASB members have any questions or comments on the analysis in this agenda paper? Specifically: (a) is there anything IASB members would like us to research, consult on or analyse further, apart from matters summarised in paragraph 24? (b) do IASB members have any other comments or questions on the analysis in this paper or the initial staff views summarised in paragraphs 36–38?