Staff paper

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Date	**April 2024**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Performance information subset—Thresholds and other matters**
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Introduction and structure

1. As Agenda Paper 18 explains, this paper analyses feedback on the thresholds proposed by the International Accounting Standards Board (IASB) to identify strategic business combinations, as well as other matters related to the identification of strategic business combinations[1].

2. The paper is structured as follows:

   (a) proposed thresholds (paragraphs 4–41);

   (b) other matters (paragraphs 42–53);

   (c) summary of staff initial views and next steps (paragraphs 54–56); and

   (d) question for the IASB.

3. This agenda paper does not ask the IASB to make any decisions.

[1] The Exposure Draft referred to the subset of business combinations for which an entity would be required to disclose performance information as 'strategic' business combinations. However, as paragraphs 51–53 explain, we acknowledge and will consider respondents' concerns about the use of the term 'strategic'. This paper uses the term 'strategic' for simplicity.

Proposed thresholds

4. Our analysis in this agenda paper considers separately feedback on:

   (a) quantitative thresholds (paragraphs 7–27); and

   (b) qualitative thresholds (paragraphs 28–41).

5. As Agenda Paper 18A to this meeting notes, for identifying a subset of business combinations for which an entity would be required to disclose performance information, we think the IASB should continue to explore:

   (a) a threshold approach;

   (b) a rebuttable presumption approach; and

   (c) an indicator-based approach.

6. Our analysis on the proposed thresholds in this agenda paper would be directly relevant to a threshold approach and a rebuttable presumption approach. This analysis might also help inform our analysis and conclusions on an indicator-based approach.

Quantitative thresholds

7. The IASB proposed three quantitative thresholds for identifying strategic business combinations. A business combination would be a strategic business combination if:

   (a) in the most recent annual reporting period before the acquisition date:

      (i) the absolute amount of the acquiree's operating profit or loss is 10 per cent or more of the absolute amount of the acquirer's consolidated operating profit or loss; or

      (ii) the acquiree's revenue is 10 per cent or more of the acquirer's consolidated revenue; or

   (b) the amount recognised as of the acquisition date for all assets acquired (including goodwill) is 10 per cent or more of the carrying amount of the total assets recognised in the acquirer's consolidated statement of financial position as at the acquirer's most recent reporting period date before the acquisition date.

8. Paragraphs BC63–BC67 of the Basis for Conclusions to the Exposure Draft (Basis for Conclusions) explain the IASB's rationale for proposing these quantitative thresholds.

9. Our analysis is grouped as follows:
   (a) measures on which the thresholds are based (paragraphs 10–18);
   (b) setting the thresholds at 10% (paragraphs 19–2627); and
   (c) clarification requests (paragraph 27).

Measures on which the thresholds are based

Feedback summary

10. Paragraph 21–26 of Agenda Paper 18C to the IASB's December 2024 meeting (December agenda paper) summarises respondents' feedback on the measures on which the proposed quantitative thresholds are based. In summary:
    (a) many respondents did not specifically comment on the measures;
    (b) some respondents explicitly agreed with the measures (that is, revenue, total assets and operating profit);
    (c) many respondents disagreed with at least one of the measures and most respondents express at least some concerns with the measures. In particular:
        (i) many respondents said an entity's operating profit may be volatile. Using operating profit as a measure could result in an immaterial business combination being classified as strategic because the operating profit of the acquirer in the base period is unusually low. A few respondents said revenue could also be volatile—for example, in industries where revenue is influenced by volatile commodity prices.
        (ii) a few respondents raised concerns about using the asset measure, which compares the amount recognised as of the acquisition date for all assets

acquired (including goodwill) with the book value of the acquirer's assets. The difference in measurement bases of the numerator and denominator could result in an entity capturing insignificant business combinations when the acquirer's book value is considerably lower than its fair value.

11. Many respondents suggested changes, including:

    (a) using the average operating profit over the past few annual reporting periods (a few of these respondents also suggested using a similar average for revenue) instead of only the most recent annual reporting period;

    (b) removing the quantitative threshold for operating profit;

    (c) allowing an entity to adjust operating profit or revenue for unusual items; and

    (d) excluding amounts attributable to non-controlling interests.

12. Some respondents suggested considering additional or alternative measures.

Staff analysis

13. Consistent with the IASB's view in developing the proposed thresholds (see paragraphs BC64–BC65 of the Basis for Conclusions), we think it is important to:

    (a) base the quantitative thresholds on measures defined in IFRS Accounting Standards that are commonly used in regulations; and

    (b) use a mix of measures, including those based on the statement of financial position and the statement of financial performance, to take into account different motives for entering into a business combination.

14. We think the IASB should retain both the revenue and asset measures because:

    (a) whilst we acknowledge concerns identified by respondents on using revenue and assets (see paragraph 10(c)), only a few respondents expressed concerns about using these two measures.

(b) as paragraph BC64 of the Basis for Conclusions notes, these measures are defined in IFRS Accounting Standards and are commonly used in regulations.

(c) we acknowledge that revenue can sometimes be volatile (for example, when there is significant fluctuation in commodity prices), but revenue is generally less volatile than operating profit;

(d) for the asset measure, we acknowledge that the acquired assets might be measured differently than the acquirer's existing assets, but these measures are readily available to the acquirer whereas alternatives (for example, the fair value of the acquirer's existing assets) may be costly to determine;

(e) we think it would be important to have thresholds to capture business combinations that comprise a significant portion of the entity's total assets or total revenues.

15. We acknowledge respondents' concerns about the volatility of operating profit (paragraph 10(c)(i)). Before reaching a staff view on whether to retain a threshold based on operating profit, we plan to consult on:

(a) whether a threshold based on operating profit would identify business combinations for which it would be important for a user to receive performance information about, and which would not have been identified by another threshold; and

(b) whether using an average operating profit of, for example, the past 3 or 5 years would alleviate concerns about volatility and what the period for that average should be (for example, 3 years, 5 years or a different number of years).

16. We disagree with suggestions to require an entity to adjust operating profit for unusual items or non-controlling interests. We note:

(a) it would be difficult to define what constitutes an 'unusual' item. As paragraphs BC407–BC413 of the Basis for Conclusions to IFRS 18 *Presentation and Disclosure in Financial Statements* explain, the IASB considered requiring entities to disclose unusual items when developing IFRS

18 but decided not to do so because there is no single accepted definition of 'unusual income and expenses' and that it would be difficult to develop such a definition on a timely basis.

(b) users of an entity's financial statements include stakeholders other than owners of the entity (such as an entity's potential investors, lenders and other creditors) and that a measure representing 'operating profit attributable to owners of the entity' may not be useful to them.

17. We considered the additional measures respondents suggested. The table below summarises these suggestions and our analysis:

Respondents' suggestions	**Staff analysis**
Market capitalisation	Consistent with paragraph BC64 and BC66 of the Basis for Conclusions, we continue to think: (a) the measure may not be relevant for all entities; and (b) the threshold based on total assets has been designed to function in a similar way to one based on the value of the entity. The total asset threshold requires an entity to use the value of all assets recognised by the acquirer as part of the business combination (including goodwill), instead of using total assets recognised by the acquiree before the acquisition.
Enterprise value	As paragraph 30 of Agenda Paper 18D to the IASB's September 2022 meeting notes, this measure is not defined in IFRS Accounting Standards. We think the total asset thresholds would generate similar results.

Total liabilities acquired	This threshold would be impacted by how the acquirer finances a business combination. We think the importance of performance information for a business combination is not linked to how a business combination is financed.
Consideration paid	Similar to total liabilities acquired, we think this threshold would be affected by how the acquirer finance the business combination. We think the importance of performance information of a business combination is not linked to how a business combination is financed.
Sum of consideration paid and net debt assumed	Similar to total liabilities acquired, we think this threshold would be impacted by how the acquirer finances the business combination. We think the importance of performance information of a business combination is not linked to how a business combination is financed. Further, 'net debt' is not defined in IFRS Accounting Standards.
Acquisition premium paid	The term 'acquisition premium' is not defined in IFRS Accounting Standards. We also think the importance of performance information for a business combination is not linked to the relative amount of acquisition premium paid in a business combination.

18. For the reasons explained in paragraph 17, we think the IASB should not consider the additional measures suggested by respondents.

Setting the thresholds at 10%

Feedback summary

19. Paragraphs 19–20 of the December agenda paper summarise feedback on the IASB's proposal to set the quantitative thresholds at 10%. As those paragraphs note:

   (a) some respondents did not specifically comment on setting the quantitative thresholds at 10%.

   (b) some respondents, including most users and both organisations representing groups of securities regulators, agreed with setting the quantitative thresholds at 10%. They said the 10% thresholds would appropriately identify the population of important business combinations without over-burdening preparers with excessive disclosure requirements.

   (c) many other respondents said the 10 % thresholds are too low and would inappropriately capture too many business combinations.

20. The feedback in paragraph 19 of this paper provides stakeholders' views on the proportion of business combinations that would be captured applying the proposed thresholds. Agenda Paper 18C summarises evidence-based feedback about the proportion of business combinations that would be captured applying the thresholds from our prior research, outreach with preparers and comment letters. It also discusses an academic study that attempts to quantify the proportion of business combinations that would be captured by the quantitative thresholds.

21. As paragraph 24(e) of the December agenda paper notes, a few respondents suggested requiring different percentage thresholds for different measures, for example, by setting a higher threshold for revenue than for operating profit (or vice versa).

Staff analysis

22. As paragraphs BC45–BC51 of the Basis for Conclusions note, the IASB's objective in identifying a subset is to balance costs and benefits by:

(a) requiring an entity to disclose performance information for only the most important business combinations; and

(b) addressing stakeholder concerns about the volume of disclosures being costly and onerous.

23. As paragraph BC67 of the Basis for Conclusions notes:

> The IASB observed that the quantitative threshold in local regulations for additional disclosure is usually set between 5% and 30%. Although the IASB acknowledges that any quantitative threshold would to some extent be arbitrary, the IASB proposes to set the percentage at 10% because:
>
> (a) the IASB's research suggests the number of business combinations captured by regulators' thresholds is fewer than the number of business combinations for which entities disclose information separately in financial statements.
>
> (b) limited feedback from outreach suggested a 5% threshold might be too low and would capture too many business combinations.
>
> (c) IFRS 8 uses a 10% threshold to identify the operating segments about which an entity is required to disclose information separately. IFRS 8 uses thresholds to identify segments that are large enough to require information to be disclosed about, which is similar to what the IASB is proposing.

24. We think the IASB's rationale for setting the percentage at 10% as set out in paragraph BC67 remains relevant. In particular, we note:

(a) feedback (including the evidence-based feedback summarised in Agenda Paper 18C) suggests that setting the percentage at 10% results in identifying a population of business combinations that is fewer than the number of business combinations for which entities disclose information separately in financial statements.[2]

(b) notwithstanding its limitations (see paragraphs 16–29 of Agenda Paper 18C), the findings of the academic study summarised in Agenda Paper 18C suggests that the proportion of business combinations that would be captured applying the quantitative thresholds set at 10% are within the range the IASB considered when developing the thresholds.

25. However, we do not as yet have an initial view on the percentage at which to set the threshold. We think determining the percentage for the threshold would depend on, for example:

(a) the approach used to identify the subset of business combination for which an entity would be required to disclose performance information (see Agenda Paper 18A);

(b) the measures on which the thresholds are based (see paragraphs 10–18); and

(c) the type of performance information that the IASB would require an entity disclose for the subset of business combinations (to be redeliberated at future IASB meetings).

26. Consequently, we will present our view on the percentage at which to set the threshold at a future IASB meeting.

Clarification requests

27. As paragraph 26 of the December agenda paper notes, many respondents requested clarifying how to apply the quantitative thresholds, for example, if the financial statements of the acquiree are not prepared in accordance with IFRS Accounting

[2] The disclosure requirements in IFRS 3 refer to 'material business combinations'—for example, paragraph B67 requires entities to disclose information 'for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively'.

Standards. We will consider these clarification requests when we develop our final recommendation on how to identify a subset of business combinations.

Qualitative thresholds

28. The IASB proposed two qualitative thresholds for identifying strategic business combinations. A business combination would be a strategic business combination if the business combination resulted in the acquirer entering a new major line of business or geographical area of operations.

29. Paragraphs BC68–BC70 of the Basis for Conclusions explain the IASB's rationale for proposing these qualitative thresholds.

Feedback summary

30. As paragraph 30–32 of the December agenda paper notes, many respondents highlighted challenges in applying the proposed qualitative thresholds. For example:

    (a) when an entity enters a new location (such as a new country or a city) within a larger geographical segment (such as a continent), it is unclear whether this would constitute a new geographical area of operations.

    (b) an entity may enter a new line of business or geographical area of operation with an immaterial business combination and subsequently expand its presence through more substantial business combinations or through organic growth. It is unclear whether the qualitative thresholds capture the initial smaller business combination.

    (c) it can be difficult to set a boundary between different lines of businesses.

31. Some respondents said a business combination allowing an entity to enter a new geographical area of operations or a line of business does not necessarily mean the business combination is strategic and the proposed qualitative thresholds would therefore inappropriately capture many business combinations.

32. A few respondents disagreed with basing the qualitative thresholds on thresholds in IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*[3] used to identify discontinued operations. They said:

   (a) there are application challenges in applying the IFRS 5 thresholds; and

   (b) acquisition transactions differ from disposal transactions and using the same criteria can lead to new challenges. For example, when an entity exits a line of business or geographical area of operations, it has a good understanding of the significance of that business or geographical area. In contrast, when an entity initially enters a new line of business or a geographical area of operations, the significance of that new business or geographical area could be difficult to assess.

33. As paragraph 36 of the December agenda paper notes, some respondents asked for clarifications on how to apply the criteria and whether an immaterial business combination that met the qualitative thresholds would require disclosure of performance information.

Staff analysis

34. As paragraph BC68 of the Basis for Conclusions explains, the IASB's objective in setting the qualitative characteristics is to capture business combinations that would not meet the proposed quantitative thresholds but are nonetheless strategic because they would represent a strategic shift for an entity.

35. We acknowledge some of the challenges and concerns highlighted by respondents in applying the proposed qualitative criteria—however, we think most of these challenges and concerns are not new challenges and concerns created by the proposals. As paragraph BC69 of the Basis for Conclusions notes, the proposed thresholds are based on the thresholds in paragraph 32 of IFRS 5 used to identify

[3] Paragraph BC69 of the Basis for Conclusions states the qualitative thresholds are based on the thresholds in paragraph 32 of IFRS 5 used to identify discontinued operations. The thresholds have been adapted to reflect the purchase of a business instead of the discontinuance of an operation.

discontinued operations, and most of the challenges highlighted by respondents relate to the application of wording already in IFRS 5.

36. Regarding feedback that proposed qualitative thresholds may inappropriately capture business combinations that are not strategic, as paragraph BC53 notes 'An entity would still assess whether each item of information it is required to disclose in applying the proposals is material, as it does for any other item of information disclosed in financial statements'. We will consider clarifying this further through drafting.

37. We accept the feedback in paragraph 32(b) of this paper that acquisition transactions differ from disposal transactions and using the same criteria might lead to new challenges, for example, in assessing the significance of a new line of business or geographical area.

38. We considered suggestions for alternative qualitative thresholds suggested by respondents (paragraph 33 of the December Agenda Paper). As paragraph BC70 notes, the IASB considered other thresholds when developing the proposed amendments[4]. It already considered for example, thresholds based on (a) the acquisition of a separate reportable segment, and (b) a business combination requiring additional disclosure by local regulations. The IASB concluded that including such thresholds was unnecessary because these thresholds would capture large business combinations that would already be captured by the quantitative thresholds.

39. Other suggestions included:

    (a) acquiring key technologies—similar to challenges in assessing the significance of a new line of business or geographical area (see paragraph 32 above), we think it would be difficult to assess whether a technology is going to be 'key' to the business. This would also be a concept not currently used in IFRS Accounting Standards and could lead to new application challenges.

[4] See paragraph 18 of Agenda Paper 18D to the IASB's September 2022 meeting

Consequently, we think the IASB should not consider developing such a threshold.

(b) Industry-specific consideration—we think the IASB should not consider developing thresholds based on industry-specific considerations because IFRS Accounting Standards are generally not industry-specific. It might also not be feasible to identify all industry-specific considerations.

40. In summary, while we understand there can be challenges in applying the proposed thresholds, including some challenges that do not exist when applying similar criteria in IFRS 5, we have not identified any alternative qualitative thresholds that we think the IASB should use. Consequently, we think the IASB should either:

(a) continue with the proposed qualitative thresholds; or

(b) not include any qualitative thresholds.

41. We have not yet reached a staff view on which of these two alternatives to recommend. Our view could depend on the approach to identify business combinations for which performance information would be required. We think, for example, that if the IASB decides to pursue a rebuttable presumption approach discussed in Agenda Paper 18A, the basis for the rebuttal could influence the need for, and our view on, any qualitative thresholds.

Other matters

42. This section analyses the following:

(a) meeting multiple thresholds (paragraphs 43–46);

(b) series of business combinations (paragraphs 47–50); and

(c) use of the term ‘strategic’ (paragraphs 51–53).

Meeting multiple thresholds

43. Some respondents said it would be inappropriate to identify a business combination as strategic based on meeting only one threshold because entities operating in asset intensive or low margin industries are likely to meet specific thresholds even for 'insignificant' business combinations. These respondents suggested variations of a threshold approach. For example, identifying a business combination as strategic only if the business combination:

    (a) meets at least two quantitative thresholds; or

    (b) meets at least one quantitative threshold and one qualitative threshold.

44. As paragraph BC65 notes, an entity might have different motives for entering into a business combination. The different thresholds were designed to capture business combinations that are entered into with different motives but that are important enough for users to receive performance information about. For example:

    (a) the revenue threshold was designed to capture business combinations in which the acquiree has a high turnover but a low asset base and might therefore not be captured by the asset threshold; and

    (b) the qualitative thresholds were designed to capture business combinations that would not be captured by the quantitative thresholds (see paragraph BC68 of the Basis for Conclusions).

45. In our initial view, we think respondents who proposed multiple thresholds may have other underlying concerns that could be more effectively addressed through alternative means, rather than requiring a business combination to meet multiple thresholds. Specifically:

    (a) respondents who suggested requiring a business combinations meet at least two quantitative thresholds might be mainly concerned that the thresholds would capture too many business combinations. Paragraphs 22–26 analyse feedback on the proportion of business combinations that would be captured applying the proposed thresholds; and

(b) respondents who suggested requiring a business combinations meet at least one quantitative threshold and one qualitative threshold might not have considered that, as paragraph 36 explains, an entity would still assess whether each item of information it is required to disclose in applying the proposals is material.

46. We have not yet reached a staff view on whether to recommend using multiple thresholds. Our view could depend on the approach to identify business combinations for which performance information would be required, as well as the measures and percentages of the thresholds.

Series of business combinations

47. Paragraphs BC71–BC73 of the Basis for Conclusions discuss the IASB's considerations in respect of identifying a series of business combinations that would not, individually, be captured by the proposed thresholds but that are entered into to achieve the same strategic objective(s). The IASB was unable to develop a method for identifying such business combinations.

48. As paragraphs 37–40 of the December agenda paper note:

(a) some users said the IASB should revise the thresholds to capture a series of business combinations entered into to achieve the same strategic objective. However, they acknowledged the difficulty in developing a method to do so.

(b) a few users suggested requiring entities to disclose performance information when the total size of business combinations undertaken by an entity in a particular line of business or geographical area surpasses a particular threshold over a specific period (for example, two years).

(c) one respondent (a standard-setter) said if an entity has the same strategic rationale for multiple business combinations[5], it should assess whether those business combinations would be strategic when considered in aggregate.

49. Whilst we acknowledge users' requests for receiving performance information about a series of a business combinations entered into to achieve the same strategic objective(s), we continue to think developing and applying requirements to identify such a series of business combinations may be difficult. We have not received new information that would help us in developing such requirements. We considered respondents' suggestions but continue to think that:

(a) there could be challenges in, for example:

(i) determining the period over which to identify a series of linked business combinations if an entity continues acquiring businesses over a prolonged period; and

(ii) ensuring comparability of performance information for the series over time given changes to the composition of business combinations that would occur as more business combinations are entered into as part of the series.

(b) as paragraph BC72 of the Basis for Conclusions notes:

> The IASB proposes a management approach to disclosing information (see paragraph BC33) and any requirements set by the IASB might not group business combinations in the same way that an entity's management would. If the IASB were to prescribe the way that business combinations should be grouped, an entity that groups business combinations in a different way would disclose only that its management is not reviewing the series of business combinations because they are reviewed in a different

[5] The IASB proposed to replace the requirement for an entity to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for a business combination. We will present feedback on this proposed requirement at a future IASB meeting.

way from how the IASB envisaged. This situation might not provide users with useful information.

50. Therefore, in our initial view, we do not think the IASB should further explore developing a proposal to identify a series of business combinations that are entered into to achieve the same strategic objective(s).

Use of the term 'strategic'

51. As paragraph 42 of the December agenda paper notes, some respondents expressed concerns about the term 'strategic' business combinations to describe the subset of business combinations for which an entity would be required to disclose performance information. Their reasons included:

  (a) almost all of an entity's business combinations would be strategic, otherwise, the entity would not have pursued those business combinations.

  (b) the term may be difficult to translate into other languages. This challenge could lead to confusion with existing accounting terms or conflict with local regulations.

  (c) the term 'strategic business combination' may imply that the identification of business combinations for which to disclose performance information follows a management approach (similar to the identification of the information to be disclosed—see Agenda Paper 18D to the IASB's December 2024 meeting), when that is not the case.

52. We acknowledge respondents' concerns about the term 'strategic'. Depending on the approach the IASB takes to identify the subset (that is, a threshold approach, rebuttable presumption approach or indicator-based approach), it may not be necessary to use a term to describe that subset. For example, in a threshold approach, the IASB could simply list the thresholds and require an entity to disclose performance information for a business combination that meets those thresholds without using a term to describe such business combinations.

53. We will assess whether to label the subset and, if so, what that label should be after developing our recommendation on the approach to use in identifying the subset of business combinations.

Summary of staff initial views and next steps

54. We think the IASB should not consider further the following:

    (a) additional quantitative or qualitative thresholds suggested by respondents (paragraphs 17 and 38–39);

    (b) developing requirements to identify a series of business combinations entered into to achieve the same strategic objective(s) (paragraphs 47–50).

55. For the thresholds proposed in the Exposure Draft:

    (a) we think the IASB should retain the asset and revenue thresholds (paragraph 14);

    (b) we plan to consult on the usefulness of having an operating profit threshold and whether using average operating profit as the threshold could address respondents' concern relating to its volatility (paragraph 15); and

    (c) we will consider other aspects of the IASB's proposals (such as the approach to determining the subset or the type of performance information that the IASB would require an entity disclose for the subset of business combinations) before reaching a staff view on:

        (i) setting the quantitative thresholds at 10% (paragraph 19–26);

        (ii) whether to retain the proposed qualitative thresholds (paragraph 28–41);

        (iii) whether to use multiple thresholds (paragraph 43–46); and

        (iv) use of the term 'strategic' (paragraph 51–53).

56. As Agenda Paper 18 explains, we will use feedback from this meeting and consultations (on the topics in this paper and Agenda Paper 18A) 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 55(b)? (b) do IASB members have any other comments or questions on the analysis in this paper or the staff's initial views summarised in paragraphs 54–55?