Staff paper

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IASB® meeting

Date	**June 2025**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Applying the exemption**
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Purpose and structure

1. As Agenda Paper 18 explains, this paper analyses feedback on the application of the proposed exemption from some disclosure requirements in the Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (Exposure Draft).

2. The paper is structured as follows:

   (a) background (paragraphs 3–4);

   (b) applying the exemption (paragraphs 5–36);

   (c) summary of staff initial views and next steps (paragraphs 37–39); and

   (d) question for the IASB.

Background

3. Paragraphs 3–6 of Agenda Paper 18A explain the proposed exemption. The IASB developed a principle underpinning the proposed exemption—that an entity be exempted from disclosing particular items of information if disclosure of that information can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives for a business combination. To ensure the proposed exemption would be operational and enforceable, the IASB also proposed

application guidance. Paragraph BC90 of the Basis for Conclusions on the Exposure Draft (Basis for Conclusions)—reproduced in paragraph 5 of this paper—summarises the proposed application guidance.

4. This paper covers our analysis of feedback on applying the proposed exemption (paragraphs 5–36).

Applying the exemption

5. Paragraph BC90 of the Basis for Conclusions states:

> To ensure the proposed exemption is operational and enforceable, the IASB decided to propose application guidance. The application guidance would require an entity:
>
> (a) to disclose, for each item of information to which an entity has applied the exemption, that it has applied the exemption and the reason for doing so (paragraphs BC93–BC95).
>
> (b) to consider whether, instead of applying the exemption, it is possible to disclose information in a different way—for example, at a sufficiently aggregated level—without prejudicing seriously the entity's acquisition-date key objectives for a business combination (paragraphs BC96–BC98).
>
> (c) to consider factors such as the effect of disclosing the information and the public availability of the information in determining whether the exemption is applicable (paragraphs BC99–BC102).
>
> (d) to reassess in each reporting period whether the item of information still qualifies for the exemption. If it is no longer appropriate to apply the exemption, the entity would be required to disclose the item of information previously exempted (paragraphs BC103–BC107).

6. Notwithstanding the proposed application guidance, as paragraphs 25–43 of Agenda Paper 18F for the IASB's December 2024 meeting (December agenda paper) note, respondents raised concerns about applying the exemption including:

   (a) auditability and subjective nature of the exemption (paragraphs 7–12);

   (b) use of the term 'seriously prejudicial' (paragraphs 13–14);

   (c) clarifying how often the IASB expects the exemption to be applied (paragraphs 15–17);

   (d) feedback on the proposed application guidance (paragraphs 18–35); and

   (e) other suggestions (paragraph 36).

Auditability and subjective nature of the exemption

Feedback summary

7. As paragraph 25 of the December agenda paper notes, some respondents said the proposed exemption would be subjective, involve judgement and be difficult to apply. Many respondents across all stakeholder groups request illustrative examples/ application guidance to ensure consistent application in appropriate circumstances.

8. As paragraph 28 of the December agenda paper notes, some respondents—including most accounting firms and preparers—expressed concerns about the auditability of the exemption. They said:

   (a) it could be difficult for preparers to provide evidence that the exemption is applicable and for auditors to assess the exemption's applicability;

   (b) the subjective nature of the exemption and judgement involved could lead to extended discussions between auditors and preparers;

   (c) assessing the exemption could be burdensome for auditors and increase audit risk and cost; and

(d) additional application guidance could mitigate some of the concerns on auditability.

Staff analysis

9. We acknowledge the concerns expressed by both accounting firms and preparers on the auditability and subjective nature of the exemption. We agree that applying the exemption involves the application of judgement.

10. The application guidance proposed was intended to help preparers apply the exemption and to help auditors/ regulators assess the application and ensure it is applied in only the appropriate situations. Because of the nature of the exemption, we accept there will be judgement that stakeholders (preparers, auditors and regulators) will need to apply and doing so could be challenging in some situations.

11. The principle underlying the exemption is based on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*[1] and the application guidance proposed is based on application guidance/ requirements from regulatory exemptions to disclosing information in different jurisdictions. Anecdotally, we understand that although not always easy to apply and enforce, entities are able to apply those requirements and where applicable, auditors/regulators are able to assess and enforce those requirements.

12. However, where respondents have provided specific suggestions for improvements/ changes to the application guidance, we are considering those (see rest of this paper).

[1] Paragraph 92 of IAS 37 exempts an entity from disclosing some or all information that would be required by paragraphs 84–89 of IAS 37 if doing so can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset that the information relates to.

Use of the term 'seriously prejudicial'

Feedback summary

13. Some respondents (including preparers and preparer groups, user groups, regulators and national standard-setters) said the proposed exemption would be subjective and the term 'seriously prejudicial' is open to interpretation and possible misuse and could be challenging to audit. These respondents also said a broad interpretation of the term could lead to boilerplate disclosures. Respondents requested application guidance or examples on specific circumstances that would and would not be considered 'seriously prejudicial'.

Staff analysis

14. Paragraphs BC79–BC80 of the Basis for Conclusions discuss the principle underpinning the exemption. Paragraph BC80(b) notes that the approach is similar to the exemption in IAS 37. Feedback the IASB had at the time of developing the exemption suggested that the exemption in IAS 37 works well in practice. We have not received evidence to the contrary and consequently think the IASB should not define 'seriously prejudicial'. Any definition or application guidance on the term 'seriously prejudicial' could have unintended consequences on the application of the exemption in IAS 37.

Clarifying how often the IASB expects the exemption to be applied

Feedback summary

15. Paragraph 92 of IAS 37 (see footnote 1 to paragraph 11 of this paper) refers to the exemption in that paragraph being applied in 'extremely rare cases'. Some respondents, particularly standard-setters, accounting professional bodies and regulators, suggested including a similar statement and specifying that the exemption

should be applied only in 'extremely rare circumstances'. They said such a statement would restrict entities from applying the exemption more often than necessary.

Staff analysis

16. Paragraph BC92 of the Basis for Conclusions states:

> The IASB also considered specifying how often it expects entities to apply the exemption—for example, whether it expects the application of the exemption to be extremely rare, similar to the requirement in paragraph 92 of IAS 37. The IASB decided against doing so. Instead, the IASB decided to focus on identifying the appropriate circumstances in which an entity could apply the exemption, and developed application guidance designed to ensure that the exemption is applied only in those circumstances.

17. We continue to agree with the IASB's view and think it should not include a statement specifying that the exemption should be used only in 'extremely rare circumstances'. As paragraph 21(a) of Agenda Paper 18A explains, each business combination is unique and we think the IASB's focus should be on identifying the circumstances in which it is appropriate to use the exemption and designing the exemption to ensure:

(a) entities can apply the exemption in those situations, regardless of whether those situations arise only rarely or arise more frequently.

(b) the exemption can be applied in only those circumstances.

Feedback on the proposed application guidance

Situations in which the exemption can or cannot be applied

18. The proposed application guidance includes examples of situations in which an entity would be unable to apply the exemption (for example, if the information is already

publicly available). As paragraph 26 of the December agenda paper notes, some respondents suggested listing or illustrating specific situations in which an entity is able to apply the exemption. A few respondents said this approach could be more useful than providing application guidance highlighting situations in which an entity is unable to apply the exemption.

19. We acknowledge feedback requesting examples of specific situations in which an entity can apply the exemption. We think listing some such examples could complement the proposed application guidance. The Basis for Conclusions already includes one such example. Paragraph BC103 discusses a situation in which an entity might apply the exemption to information about the launch of a new product, the disclosure of which could result in the entity being unable to launch that new product.

20. We will develop and test such examples with stakeholders and consider including them as part of the application guidance accompanying the exemption.

Disclosing the reason for applying the proposed exemption

21. The IASB proposed—as part of the application guidance accompanying the proposed exemption—requiring an entity applying the proposed exemption to an item of information to disclose the fact that it has applied the exemption and the reason for doing so. Paragraphs BC93–BC95 of the Basis for Conclusions note:

    (a) the requirement is similar to the requirement in paragraph 92 of IAS 37 which requires an entity to disclose the fact that, and reason why, the information has not been disclosed when it applies the exemption in IAS 37; and

    (b) some IASB members thought this requirement would make the application of the exemption more robust by improving the auditability and enforceability of the exemption.

22. As paragraphs 33–35 of the December agenda paper note:

    (a) a few respondents explicitly supported requiring an entity to disclose the reason for applying the exemption because the information would be useful

and would help investors assess management's intentions. However, some respondents said disclosing the fact that an entity has applied the exemption and the reasons it has not disclosed the item of information could also be commercially sensitive (for example, if it relates to unannounced employee redundancies) and consequently, should not be required.

(b) a few respondents said entities' reasons for applying the exemption could be boilerplate.

23. A few respondents requested illustrating how entities could disclose the reason for applying the exemption.

24. We continue to think an entity should be required to disclose the fact that it has applied the exemption. However, we agree with respondents who say disclosing the reason for which an entity has applied the exemption and not disclosed an item of information could be commercially sensitive. IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* includes an exemption that permits an entity, in limited circumstances, to omit commercially sensitive information about opportunities from its sustainability-related financial disclosures. This exemption in IFRS S1 requires an entity to disclose the fact that it has applied the exemption but does not require an entity to disclose the reason for applying the exemption. Paragraph BC81(b) of the Basis for Conclusions to IFRS S1 states:

> an entity is required to have a specific reason for non-disclosure, but is not required to disclose this reason. The ISSB considered whether to require an entity to disclose the reason it has omitted information, similar to the requirement in paragraph 92 of IAS 37... However, the ISSB decided that an entity would be unable to provide a useful disclosure of its reasoning without revealing the commercially sensitive information. Instead, the ISSB decided to require an entity to disclose that it has used the exemption to make users aware that information has been excluded…

25. We think an entity should not be required to disclose the reason for applying the exemption. Not requiring an entity to disclose the reason for applying the exemption does not mean that an entity does not need to have a reason to apply the exemption. An entity would be able to apply the exemption only if the circumstances specified in the requirements are applicable to the entity. Consequently, regardless of whether an entity is required to disclose the reason, we expect an entity to have a reason for applying the exemption and to be able to demonstrate to auditors/ regulators why it has applied the exemption.

26. Consequently, our initial view is that an entity should be required to disclose the fact that it has applied the exemption but should not be required to disclose the reason for doing so.

Disclosing information in a different manner

27. The IASB proposed—as part of the application guidance accompanying the proposed exemption—requiring an entity to consider whether, instead of applying the exemption, it is possible to disclose information in a different way—for example, at a sufficiently aggregated level—without prejudicing seriously the entity's key objectives for the business combination.

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

    (a) two standard-setters explicitly agreed with this proposal. Users in one of their jurisdictions said aggregated disclosures (similar to those required by IFRS 8 *Operating Segments*) would still provide useful information. A few respondents— particularly users—said information aggregated in total for all categories of expected synergies would be preferable to no information about expected synergies.

    (b) a few respondents asked for application guidance/ illustrative examples to help entities better understand how to apply this proposal.

(c) some respondents (particularly standard-setters and regulators) expressed concerns about this proposal and said:

(i) the proposal could lead to entities disclosing less useful information. For example, one standard-setter said if revenue synergies were commercially sensitive but cost synergies were not, an entity would, applying this proposal only report total synergies. However, users in their jurisdiction would prefer to receive only the cost synergy information rather than the aggregated synergy information.

(ii) aggregation of information may not be possible for entities with one or two business combinations and would not address their concerns about commercial sensitivity.

(d) a few respondents:

(i) requested clarifying how information could be aggregated; and

(ii) suggested requiring an entity to explain the fact that it is disclosing the information in a different way when it aggregates information applying this proposal.

29. As the IASB noted when developing the exemption, some preparers said the degree to which information is commercially sensitive depends on how detailed it is (see paragraph BC96 of the Basis for Conclusions). Feedback (see paragraph 28(a)) confirms that users would prefer to receive aggregated information rather than no information. Consequently, we continue to think the IASB should require entities to consider whether it is possible to disclose information in a different way—for example, at a sufficiently aggregated level—without prejudicing seriously the entity's key objectives for the business combination. We note that IFRS S1's exemption (explained in paragraph 24) includes a similar requirement (see paragraph B35(c) of IFRS S1).

30. With respect to the concerns noted in paragraph 28(c):

    (a) we will consider feedback specific to the proposal to require an entity to disclose expected synergy information at a total level, rather than totals by category if disclosing the information by category could result in a need to apply the exemption (see paragraph 28(c)(i)) when we discuss other feedback on expected synergy information.

    (b) we accept that aggregation of information may not be possible for entities with only one or two business combinations in the reporting period (see paragraph 28(c)(ii))—however, an entity is only required to consider whether it is possible to disclose information in a different way, If it concludes it is not possible to do so, it is not required to then do so.

31. We think expanding the application guidance or adding examples could help entities better understand how to apply this proposal, and disclosing the fact that an entity is disclosing the information in a different way could be useful for investors. We will develop and test such guidance or examples with stakeholders and consider including them as part of the application guidance accompanying the exemption.

Reassessing the applicability of the proposed exemption

32. The IASB proposed—as part of the application guidance accompanying the exemption—a requirement for an entity to reassess at the end of each reporting period whether the acquisition-date key objectives and related targets still qualify for the exemption. If it is no longer appropriate to apply the exemption, the entity would be required to disclose that information. Paragraphs BC103–BC107 of the Basis for Conclusions discuss the IASB's rationale for this requirement.

33. A few respondents said reassessing whether the exemption remains applicable in subsequent periods could lead to additional cost and disclosure of information which would no longer be useful. A few respondents suggested specifying the circumstances

in which information previously not disclosed applying the exemption should be disclosed in a subsequent period.

34. We think:

(a) reassessing whether the exemption remains applicable in subsequent periods would not impose significant costs because the entity would be required to consider only whether its reason for applying the exemption to the acquisition-date key objectives and related targets in the prior period continues to remain applicable.

(b) an acquisition-date key objective and related target to which an entity applied the exemption in a prior period could still be useful to investors in subsequent periods. This is because that information would provide context to information about the actual performance of the business combination. Applying the proposed requirements, an entity would be required to perform this reassessment only for as long as an entity would otherwise be required to disclose information about the performance of a business combination.

35. In our initial view, the IASB should retain its proposal to require entities to reassess at the end of each reporting period whether an acquisition-date key objective and related targets to which the exemption was previously applied still qualifies for the exemption.

Other suggestions

36. Paragraph 43 of the December agenda paper lists other suggestions made by respondents. The table below summarises those suggestions and our analysis of those suggestions.

Suggestion	**Analysis**
(a) one organisation representing a group of securities regulators suggests	We think the suggested addition is similar to the proposal to require an

Suggestion	Analysis
considering the exemption provision in the European Sustainability Reporting Standards which provides explicit conditions to apply that exemption and requires an entity to make every reasonable effort to ensure the overall relevance of the disclosure in question is not impaired.	entity to consider whether, instead of applying the exemption, it is possible to disclose information in a different way (see paragraphs 27–31) and is consequently unnecessary.
(b) defining 'sensitive information'. One respondent suggested defining the concept of 'sensitive' information that could serve as a justification for applying the exemption not only in relation to the key objectives of the business combination, but also to situations in which disclosure of information would give rise to commercial, social and legal risks.	The term 'sensitive information' is used in the Basis for Conclusions to explain the IASB's rationale in developing the requirements but is not used in the proposed requirements (proposed paragraphs B67D-B67G of IFRS 3). We think it is unnecessary to define the term. The respondent's concern is mainly in respect of ensuring an entity would be able to apply the exemption to situations in which disclosure of information would give rise to legal, social and commercial risks. Paragraphs 29–36 of Agenda Paper 18A discuss our consideration of these situations.
(c) including factors such as the nature of the information, materiality, potential effect on stakeholders, and the feasibility of alternative disclosure	The proposed application guidance already includes relevant factors for an entity to consider when applying the exemption (for example, feasibility of disclosing the information in a different

Suggestion	Analysis
methods for an entity to consider when assessing the exemption's applicability.	way). An entity is also always required to consider the materiality requirements in IAS 1 *Presentation of Financial Statements* / IFRS 18 *Presentation and Disclosure in Financial Statements* when applying any requirement in IFRS Accounting Standards. We think it is unnecessary to consider additional factors.
(d) monitoring the application of the exemption after it is effective to assess whether the exemption is working as intended.	This suggestion is not relevant to the development of the exemption.

Summary of staff initial views and next steps

37. In our initial view the IASB should:

    (a) not define the term 'seriously prejudicial';

    (b) not include a statement specifying that the exemption should be used only in 'extremely rare circumstances';

    (c) remove its proposal requiring entities to disclose the reason for applying the exemption; and

    (d) retain its proposal requiring entities to reassess at the end of each reporting period whether a key objective or target to which the exemption was previously applied still qualifies for the exemption.

38. We plan to consult on:

(a) developing and testing examples of situations in which the exemption can be applied; and

(b) developing and testing examples of how an entity might be able to aggregate information and whether to require an entity to disclose the fact that it is disclosing the information in a different way when it applies this proposal.

39. We will use feedback from consultations to inform further analysis and reach a recommendation. We will present the feedback, our updated analysis and our recommendation at a future IASB meeting.

Questions 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 38?

(b) do IASB members have any other comments or questions on the analysis in this paper or the initial staff views summarised in paragraphs 37–39?