
IASB[®] meeting

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Topic	Auditability and expectation gap
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Introduction

1. This paper provides the International Accounting Standards Board (IASB) with additional feedback and our updated analysis of concerns related to the auditability of performance and expected synergy information and an expectation gap.
2. The paper is structured as follows:
 - (a) background (paragraphs 4–11);
 - (b) acquisition-date key objectives and related targets (paragraphs 12–41);
 - (c) subsequent performance information (paragraphs 42–57);
 - (d) expected synergy information (paragraphs 58–63); and
 - (e) summary of staff views (paragraphs 64–68).
3. This paper does not have any questions for the IASB. Agenda Paper 18A asks whether IASB members have any questions or comments on all of the agenda papers for this meeting.

Background

4. The Exposure Draft [*Business Combinations—Disclosures, Goodwill and Impairment*](#) (Exposure Draft) proposed to require an entity to disclose:
 - (a) information about the performance of a strategic business combination (performance information) including:
 - (i) an entity's acquisition-date key objectives and related targets (KOTs);
 - (ii) the actual performance of the business combination in subsequent periods (subsequent performance information); and
 - (iii) a qualitative statement of whether actual performance is meeting or has met the KOTs (qualitative statement); and
 - (b) quantitative information about synergies expected from combining the operations of an acquiree and an acquirer (expected synergy information) including a description of expected synergies by category and for each category of synergies:
 - (i) the estimated amounts or range of amounts of the expected synergies;
 - (ii) the estimated costs or range of costs to achieve these synergies; and
 - (iii) the time from which the benefits from the synergies are expected to start and how long they are expected to last.

5. Paragraphs BC144–BC145 of the [*Basis for Conclusions*](#) on the Exposure Draft (Basis for Conclusions) outline the IASB's considerations for the auditability of performance information. These paragraphs explain that:
 - (a) in the IASB's view, performance information would be auditable;
 - (b) the IASB expects auditors and regulators will be able to verify whether the performance information disclosed:
 - (i) is the information received by an entity's key management personnel to review a business combination;
 - (ii) is supported by adequate explanation and appropriate evidence; and

- (iii) faithfully represents what it purports to represent.

Feedback on Exposure Draft

6. [Agenda Paper 18B](#) to the IASB's December 2024 meeting summarised feedback on the [Exposure Draft](#). Many respondents raised concerns about the auditability of, and an expectation gap¹ for, performance and expected synergy information. Some respondents suggested ways to reduce these concerns.

Redeliberation status

7. At the IASB's July 2025 meeting, we provided our initial analysis of feedback, including suggestions to reduce the concerns by requiring entities to disclose:
- (a) how performance information is measured; and
 - (b) a statement that KOTs and expected synergy information reflect management's expectations at the time of the acquisition.
8. Paragraph 48 of [Agenda Paper 18A](#) to the IASB's July 2025 meeting ([July Paper 18A](#)) stated that we plan to liaise with audit professionals to:
- (a) confirm our understanding of the concerns; and
 - (b) assess if the suggestions in [July Paper 18A](#) would reduce the concerns.
9. At the IASB's July 2025 meeting, some IASB members asked us to also liaise with audit regulators.

¹ As [July Paper 18A](#) explains, respondents said users of financial statements might misunderstand the audit work done and conclude that auditors have audited the reasonableness of the information. They said users might place undue weight on the reasonableness of such information when that information is included in the audited financial statements. We refer to this as the expectation gap.

Additional outreach

10. Since the IASB's July 2025 meeting, we have met with various audit professionals to discuss the matters noted in paragraph 8. These discussions involved audit professionals (with global and jurisdictional roles), including technical accounting, audit methodology and valuation professionals from different audit firms (collectively referred to as 'auditors') and a few audit regulators.²
11. This paper summarises and analyses feedback from additional outreach for:
 - (a) acquisition-date KOTs (paragraphs 12–41);
 - (b) subsequent performance information (paragraphs 42–57); and
 - (c) expected synergy information (paragraphs 58–63).

Acquisition-date KOTs***Initial analysis—July 2025***

12. Paragraphs 18–28 of [July Paper 18A](#) provided our initial analysis and views. We acknowledged it would be difficult to verify the reasonableness of KOTs. The disclosure of KOTs is intended to help users understand, from management's perspective, why the entity paid the price it did for the business combination. Based on the design of the disclosure requirements and related disclosure objective and our understanding of audit requirements, our view was that, in the context of the audit of an entity's financial statements, an auditor would:
 - (a) be required to—and be able to—verify whether the disclosed KOTs are what key management personnel (KMP) receive to review the business combination; and

²We also met with some board members and staff from the International Auditing and Assurance Standards Board (IAASB) in their personal capacity to help us better understand the audit requirements that might be relevant to our discussions with audit professionals.

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- (b) not be required to verify the reasonableness of the KOTs.
13. We acknowledged concerns about the expectation gap. We thought concerns about the expectation gap could be reduced by the suggestions in paragraph 7.

Additional feedback

14. Stakeholders provided feedback on:
- (a) auditability of KOTs (paragraphs 15–24); and
 - (b) expectation gap (paragraph 25).

Auditability of KOTs

15. All audit professionals agreed (or did not disagree) that auditors would be required to—and be able to—verify that KOTs reflect management’s expectations for the business combination at the time of acquisition.
16. Audit professionals had mixed views on whether auditors would be required to verify a KOT’s reasonableness (including the appropriateness and achievability of the KOT).
17. Many auditors agreed that auditors would not be required to verify a KOT’s reasonableness. However, many other auditors and both audit regulators said auditors would be required to verify reasonableness. Specifically:
- (a) many auditors and both audit regulators said auditors need to provide reasonable assurance that the financial statements as a whole give a true and fair view of the state of the entity’s financial position, financial performance and cash flows. To do so, auditors would need to verify the reasonableness of a KOT to ensure that the information is reliable and of high quality. Verifying only that KOTs reflect management expectations would not, in their view, suffice.

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- (b) some auditors said a target would, in their view, be an accounting estimate and therefore International Standard on Auditing (ISA) 540 *Auditing Accounting Estimates and Related Disclosures* (or its local equivalent) would require auditors to verify the reasonableness of KOTs. However, a few auditors said concerns about ISA 540 are less relevant than concerns about ensuring financial statements present a true and fair view (see paragraph 17(a) above).
- (c) one auditor said that as a professional accountant, an auditor has the responsibility under paragraph R111.2 of [International Code of Ethics for Professional Accountants](#) not to be associated with misleading information and the auditor would therefore verify the reasonableness of a KOT.
18. A few auditors said the proposal is unclear about whether disclosed KOTs reflect management's expectations 'when agreeing the price to acquire the business' (as stated in the disclosure objective in proposed paragraph 62A(a) of the [Exposure Draft](#)) or management's expectations at the acquisition date (paragraph B67A requires disclosure of 'acquisition-date' KOTs). They said management's expectations when agreeing the price might be included in public communications but might not always have strong supporting evidence or processes. Management's might not then update those expectations at the acquisition date even if circumstances change.
19. We also asked audit professionals:
- (a) whether auditors would be able to verify a KOT's reasonableness (paragraphs 20–22); and
- (b) what auditors could do if they conclude a KOT is unreasonable (paragraphs 23–24).

Whether auditors would be able to verify a KOT's reasonableness

20. All of the auditors who said auditors would be required to verify a KOT's reasonableness said it would be difficult to do so. They said:
- (a) a KOT might be based on management assumptions that are not objectively verifiable; and

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- (b) it can be difficult to assess whether KOTs were actually reflective of conditions that existed at the time of acquisition without the use of hindsight.
21. Both of the audit regulators we spoke with said auditors would be able to verify a KOT's reasonableness. In their view, doing so would not be difficult and auditors already verify the reasonableness of management's expectations from a business combination when, for example, assessing risk or when assessing an entity's impairment test assumptions.
22. We also asked whether it would be more difficult to verify the reasonableness of KOTs than it is to verify other types of information required by IFRS Accounting Standards, for example:
- (a) information about management's view about a transaction or about the entity (for example, disclosure about: (i) the basis of organisation for an entity's reportable segments (paragraph 22(a) of IFRS 8 *Operating Segments*) or (ii) an entity's objectives, policies and processes for managing risks arising from financial instruments and the methods used to manage those risks (paragraph 33(b) of IFRS 7 *Financial Instruments: Disclosures*))—many auditors said it would be more difficult to verify a KOT's reasonableness because the information disclosed would be quantitative while the disclosures required by IFRS 8 and IFRS 7 are qualitative;
- (b) quantitative information about management-defined performance measures³ (MPMs) (paragraph 117 of IFRS 18 *Presentation and Disclosure in Financial Statements*)—many auditors said it would be more difficult to verify a KOT's reasonableness because KOT information is, in their view, forward-looking while MPMs can be reconciled to information already verified by an auditor; and

³ IFRS 18 requires an entity to disclose MPM that an entity uses to communicate to users management's view of an aspect of the financial performance of the entity as a whole. Similar to the IASB's considerations for the auditability of performance information (paragraph 5), the IASB considered what 'faithful representation' meant in the context of MPM when setting the requirement. Paragraph BC360 of the Basis for Conclusions to IFRS 18 states "Faithful representation does not in itself convey other information about the measure. For example, it does not provide information about whether a measure is a 'good' or 'bad' measure. A management-defined performance measure is only required to faithfully represent the aspect of performance being communicated."

- (c) information that can be seen as having forward-looking elements similar to KOTs (for example, key assumptions in an impairment test applying IAS 36 *Impairment of Assets* and assumptions used to measure expected credit losses applying IFRS 9 *Financial Instruments*)—one auditor said IAS 36 and IFRS 9 have detailed requirements and application guidance, which auditors would use when verifying the information.

What auditors could do if they conclude a KOT is unreasonable

23. Applying the proposals, an entity would be required to disclose the KOTs that KMP receive to review a business combination. We asked what auditors could do if they conclude a KOT that KMP receive is unreasonable. The audit professionals we asked all said the auditor could not require the entity to adjust the KOT to reflect what auditors think would be reasonable—disclosing an adjusted KOT (not received by KMP to review a business combination) would not comply with the disclosure requirement. Many auditors said they would be in a difficult position if the entity discloses a KOT the auditor assesses as being unreasonable or misleading.
24. Many auditors and one audit regulator said auditors could communicate observations and finding from the audit to users by, for example, including an emphasis of matter or other matter paragraph in the audit report to highlight that KOTs reflect management’s expectations at the acquisition date.

Expectation gap

25. All audit professionals said that there could be an expectation gap. They said users might misunderstand the audit work done and conclude that auditors have audited the reasonableness of the information. They said users might place undue weight on the reasonableness of such information when that information is included in the audited financial statements. In addition:
- (a) many auditors and one audit regulator said auditors could communicate the extent of work to users in the audit report to reduce expectation gap concerns; and

- (b) one auditor said that even if users understood the auditor's role, auditors could face increased litigation risk from users if a business combination fails.

Updated staff analysis

- 26. We have updated our analysis for:
 - (a) auditability of KOTs (paragraphs 28–36);
 - (b) expectation gap (paragraph 37); and
 - (c) how the IASB might reduce concerns (paragraphs 38–39).
- 27. Paragraphs 40–41 summarise our updated views.

Auditability of KOTs

- 28. Feedback from additional outreach confirmed that auditors would be required to—and would be able to—verify whether the disclosed KOTs are what KMP receive to review the business combination.
- 29. We acknowledge audit professionals have mixed views on whether auditors would be required to verify a KOT's reasonableness. We are not auditing experts and cannot definitively conclude on whether an auditor would be required to verify a KOT's reasonableness. We think some of the mixed views might stem from a lack of clarity about the requirements and we think the following clarifications—while not resolving all concerns—could help auditors appropriately determine whether and to what extent to verify a KOT's reasonableness:
 - (a) intention for requiring the information (paragraphs 30–33); and
 - (b) the nature of targets (paragraphs 34–36).

Intention for requiring the information

30. Paragraph 17(a) notes auditors' concern that KOTs might not be reliable enough and of sufficient quality to be included in the financial statements which an auditor needs to provide reasonable assurance on.
31. Paragraph 62A of the [Exposure Draft](#) states:
- 62A The acquirer shall disclose information that enables users of its financial statements to evaluate:
- (a) the benefits an entity expects from a business combination when agreeing on the price to acquire a business; and
- (b) for a strategic business combination (see paragraph B67C), the extent to which the benefits an entity expects from the business combination are being obtained.
32. As paragraph 21 of [July Paper 18A](#) noted, the disclosure requirement is designed to provide users information to allow them to make their own assessment of how effectively and efficiently management have invested the entity's resources. It was not designed to directly inform users whether the business combination was a 'good' or 'bad' deal for the entity and whether the price management paid for a business combination was reasonable. We think:
- (a) the disclosure objective can be achieved by informing users factually the KOT management had at the acquisition date, regardless of whether the underlying KOT is reasonable; and
- (b) the disclosure could act as anchor for users to engage in further communication about the performance of the business combination.

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33. While it may not resolve mixed views on whether auditors would be required to assess a KOT's reasonableness, we think it would be important to clarify the IASB's intent to help auditors appropriately determine whether and to what extent to verify a KOT's reasonableness. We also acknowledge feedback about clarifying whether KOT's are based on management's expectations when agreeing on the price to acquire the business or at the acquisition date (paragraph 18). In our view, the disclosure proposals were intended to require disclosure of KOTs at the acquisition date, however, we understand the basis for the feedback and plan to further analyse and clarify this matter at a future IASB meeting.

Nature of targets

34. The IASB considered the verifiability of targets when developing the [Exposure Draft](#). For example, the proposed definition of a 'target' in Appendix A of IFRS 3 states 'A target shall be specific enough for it to be possible to verify whether the related key objective is being met.'
35. As paragraph 17(b) notes, some auditors said targets are an accounting estimate. In our view, targets are the amount that management expected at the acquisition date and can be observed directly—there is no measurement uncertainty in a target⁴—and consequently, a target is not, in our view, an accounting estimate as defined in IFRS Accounting Standards. We will clarify the requirements in this respect.
36. Agenda Paper 18D also discusses in more detail whether, and if so how, to revise the scope of performance information that an entity would be required to disclose. As that paper notes, our view is that the IASB should revise the scope of performance information to targets based on metrics that are denominated in currency units (currency unit targets). We think this change will also help reduce concerns about the auditability of targets.

⁴ Paragraph 5 of IAS 8 *Basis of Preparation of Financial Statements* defines accounting estimates as 'monetary amounts in financial statements that are subject to measurement uncertainty'. The Appendix to the Conceptual Framework for Financial Reporting (Conceptual Framework) defines measurement uncertainty as 'Uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated.'

Expectation gap

37. All audit professionals said that there could be an expectation gap. User feedback from earlier in the project suggests users understand that auditors would not verify a KOT's reasonableness as part of their financial statement audit. However, we understand the basis for auditors' feedback on the expectation gap.

How the IASB might reduce concerns

38. Whilst we are not auditing experts and, based on our research, cannot conclude on the appropriate auditor's response, we think the IASB could help reduce the concerns about the auditability and expectation gap. Paragraphs 30–36 discuss our suggestions for clarifying the intention of the disclosure requirements and the nature of targets (that they are not accounting estimates) which we think will help reduce some of the concerns about the auditability of KOTs and the expectation gap. In addition:
- (a) Agenda Paper 18E discusses in more detail a suggestion to require entities to disclose how performance information is measured. Based on our analysis in that paper, we think the IASB should add a requirement to disclose how performance information is measured. This disclosure could help provide auditors with a basis to verify the information.
 - (b) Agenda Paper 18E discusses in more detail a suggestion to require entities to state that KOTs reflect management's expectations at the time of the acquisition. Based on our analysis in that paper, we think the IASB should add a requirement to disclose a statement that KOTs reflect management's expectations at the time of the acquisition. This disclosure could help reduce the expectation gap by informing users about the nature of the information.
39. Feedback suggests these amendments will reduce, but not eliminate, concerns about auditability and expectation gap. Feedback (paragraph 24) also suggests auditors might consider further measures to reduce concerns about the expectation gap by, for example, including communications in the audit report.

Staff view

40. We continue to think auditors would be required to—and would be able to—verify whether the disclosed KOTs are what KMP receive to review the business combination.
41. We acknowledge mixed views on whether auditors would be required to verify a KOT's reasonableness. We are not auditing experts and cannot definitively conclude on whether an auditor would be required to verify a KOT's reasonableness. We also accept concerns about the expectation gap for KOTs. Notwithstanding the concerns, the following clarifications and changes—while not resolving all concerns—could help address some concerns:
- (a) further clarifying the intent of the disclosure requirements;
 - (b) clarifying the nature of targets—that, is that targets are not an accounting estimate as defined in IFRS Accounting Standards;
 - (c) revising the scope of performance information (including targets) to currency unit targets (Agenda Paper 18D);
 - (d) requiring entities to disclose how performance information is measured (Agenda Paper 18E); and
 - (e) requiring entities to state that KOTs reflect management's expectations at the time of the acquisition (Agenda Paper 18E).

Subsequent performance information

42. The [Exposure Draft](#) proposed to require an entity to disclose subsequent information about the performance of a strategic business combination. This includes information about:
- (a) the actual performance being reviewed to determine whether KOTs are being met (subsequent performance information); and

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- (b) a qualitative statement of whether actual performance is meeting or has met the KOTs (qualitative statement).
43. Agenda Paper 18E analyses the qualitative statement and explains our view that the IASB should remove the proposed requirement to disclose the qualitative statement. This paper therefore does not analyse concerns about auditing the qualitative statement.

Initial analysis—July 2025

44. Paragraphs 29–37 of [July Paper 18A](#) provided our initial analysis and views. For subsequent performance information, our view was that in the context of the audit of an entity’s financial statements auditors would be required to—and would be able to—verify whether the information disclosed:
- (a) is information KMP received to review performance against KOTs; and
- (b) reflects actual performance.
45. Because auditors would verify whether the information disclosed reflects actual performance, we thought there would not be an expectation gap.
46. We acknowledged it could be difficult to verify whether the subsequent performance information disclosed reflects actual performance if the target is based on metrics not defined in IFRS Accounting Standards (non-IFRS targets). However, we thought a suggestion to disclose how non-IFRS targets are measured could reduce this concern.⁵

Additional outreach

47. Stakeholders provided feedback on:
- (a) auditability of subsequent performance information (paragraphs 48–49); and

⁵ Agenda Paper 18E analyses this suggestion and explains our view that the IASB should add a requirement to disclose how performance information is measured.

- (b) expectation gap (paragraphs 50–51).

Auditability of subsequent performance information

48. All audit professionals agreed (or did not disagree) that:
- (a) auditors would be required to—and would be able to—verify that subsequent performance information disclosed is information an entity’s KMP received to review the performance of the business combination against acquisition-date KOTs; and
 - (b) auditors would be required to verify that subsequent performance information reflects actual performance.
49. Regarding whether auditors would be able to verify that subsequent performance information reflects actual performance:
- (a) all audit professionals agreed (or did not disagree) that auditors would be able to do so for targets based on metrics defined in IFRS Accounting Standards (IFRS targets) although there would be costs to do so.
 - (b) most audit professionals agreed (or did not disagree) that it would be more difficult to do so for non-IFRS targets and one audit professional said doing so might not be possible. This is because:
 - (i) there would be no established accounting framework specifying how entities should measure and disclose such information.
 - (ii) there would be no established audit framework specifying how to verify such information.
 - (iii) the information might not be subject to the same level of internal controls as is generally the case for other information disclosed in financial statements. One audit regulator said there would be a relatively greater burden on smaller entities because these entities often lack the necessary financial resources and robust control environment available to larger entities.

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- (c) one auditor said targets might be based on a range of different metrics, and that the more a metric differs from metrics defined in IFRS Accounting Standards, the more difficult it would be for an auditor to verify whether that subsequent performance information reflects actual performance. For example, it would be easier to verify whether an ‘adjusted’ operating profit reflects actual performance than it would be to verify whether revenue passenger miles⁶ (based on data in a system not subject to other audit procedures) reflects actual performance.
- (d) many audit professionals agreed that requiring an entity to disclose how non-IFRS targets are measured would help.

Expectation gap

50. In relation to the expectation gap:

- (a) many auditors agreed that there would be no expectation gap. They however said there might be an expectation gap for actual performance of non-IFRS targets because users might expect auditors to have verified that the non-IFRS target is based on an unbiased and well-defined measure that represents the performance of the business combination.
- (b) many auditors said, even for IFRS targets, there might be an expectation gap if users expect an auditor to verify that the subsequent performance information results from the underlying performance of the business combination (for example, whether a KOT based on the combined performance of the pre-existing and acquired business is met because of the acquired business or because of unexpected growth in the pre-existing business).

⁶ According to Investopedia (<https://www.investopedia.com/terms/r/revenue-passenger-mile-rpm.asp>), revenue passenger miles is a metric used in the airline industry. It measures the total miles travelled by paying passengers, and is calculated the product of the number of passengers and distance they have flown.

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51. Most audit professionals who said there might be an expectation gap for actual performance information said requiring an entity to disclose how non-IFRS targets are measured would reduce, but not fully address, expectation gap concerns.

Updated staff analysis

52. We have updated our analysis for:
- (a) auditability (paragraphs 54–55); and
 - (b) expectation gap (paragraph 56).
53. Paragraph 57 summarises our updated views.

Auditability

54. Feedback from additional outreach confirms that:
- (a) auditors would be required to—and would be able to—verify that subsequent performance information disclosed is the information KMP received to review performance against acquisition-date KOTs;
 - (b) auditors would be required to verify that subsequent performance reflects actual performance for targets;
 - (c) auditors would be able to do so for IFRS targets, although there would be costs to do so; and
 - (d) there might be challenges for auditors to verify non-IFRS targets.
55. As Agenda Paper 18D explains, we think the IASB should revise the scope of performance information (including subsequent performance information) to currency unit targets. As Agenda Paper 18E explains, we also think entities should be required to disclose how performance information is measured. We think these changes would reduce challenges in verifying actual performance information.

Expectation gap

56. Our initial view was that there would not be an expectation gap for subsequent performance information. However, feedback from additional outreach identified concerns about an expectation gap for subsequent performance information which we acknowledge. However, because of the following reasons and suggested changes to the proposals, we think concerns about an expectation gap would not be significant:
- (a) paragraph 50(a) explains that users might expect auditors to have assessed that non-IFRS targets are unbiased and represent the performance of the business combination. We think the IASB should require an entity to disclose only currency unit targets and require entities to disclose how performance information is measured. We think these changes will sufficiently address this concern.
 - (b) paragraph 50(b) explains that users might expect auditor to verify that subsequent performance information is representative of the underlying performance of the business combination. Paragraph 10 of [Agenda Paper 18C](#) to the IASB's October 2025 meeting considers similar feedback and explains why we think performance information disclosed would be representative of the performance of the business combination. We think no further action is required in respect of this concern.

Updated staff view

57. Considering some of the changes to the proposals discussed in paragraph 41, in our view:
- (a) auditors would be required to, and would be able to, verify whether the subsequent performance information disclosed:
 - (i) is the information an entity's KMP receive to review performance against KOTs; and
 - (ii) reflects actual performance; and

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- (b) there would not be a significant expectation gap.

Expected synergy information

Initial analysis—July 2025

58. The [Exposure Draft](#) proposed to require an entity to disclose expected synergy information as detailed in paragraph 4(b).
59. Paragraphs 38–41 of [July Paper 18A](#) provided our initial analysis. As paragraph 40 of [July Paper 18A](#) and Appendix A of [Agenda Paper 18D](#) of the IASB’s October 2025 meeting (October agenda paper) note, feedback on the [Exposure Draft](#) suggested stakeholders had differing views of how to apply the proposal to disclose expected synergy information, for example whether:
- (a) an entity would be required to disclose expected synergy information only if the entity has already considered that information⁷. Such information would—similar to KOTs—reflect management’s expectations of expected synergies at the acquisition date. This ‘management approach’ reflects our intention when developing the proposal.
- (b) an entity would be required to estimate and quantify the amount of expected synergies included in goodwill regardless of whether the entity considered that information when agreeing the price for the business combination. This was not our intention when developing the proposal in the [Exposure Draft](#) but we acknowledge that the wording of the proposal may lead to stakeholders reading the proposals this way.

⁷ As paragraph 33 notes, we plan to analyse and clarify at a future IASB meeting whether KOT and expected synergy information is based on what management expected when agreeing on the price to acquire the business or at the acquisition date.

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60. As paragraph 73 of the [October agenda paper](#) explains, our view was that the disclosure of expected synergy information should follow the management approach discussed in paragraph 59(a) of this agenda paper. Applying this view, our initial view was that any challenges—and possible solutions—regarding auditability and the expectation gap would be similar to KOTs.

Additional outreach

61. Assuming the IASB clarifies the requirements for expected synergy information to reflect the management approach, all audit professionals agreed that any challenges—and possible solutions—regarding auditability and the expectation gap would be similar to KOTs. For example, auditors who said auditors would be required to verify reasonableness of KOTs said auditors would also be required to verify the reasonableness of expected synergy information.

Updated staff analysis and view

62. Assuming the IASB clarifies the requirements for expected synergy information to reflect the management approach discussed in paragraph 59(a), feedback from additional outreach confirms that any challenges—and possible solutions— regarding auditability and the expectation gap would be similar to those for KOTs. In particular, we think the IASB should:
- (a) clarify the intent of the disclosure requirements (see paragraph 33);
 - (b) clarify the nature of expected synergy information—that is, it is not an accounting estimate as defined in IFRS Accounting Standards (see paragraph 35); and
 - (c) require entities to disclose that expected synergy information reflects management’s expectations at the time of the acquisition (paragraph 59(a)).

63. As Agenda Paper 18E explains, we think that—unlike our view for KOTs—the IASB should not require entities to disclose how expected synergy information is measured because of commercial sensitivity concerns. We acknowledge the residual expectation gap for expected synergy information might therefore be greater than for KOTs. However, we think the clarifications in paragraph 62 would help reduce the expectation gap.

Summary of staff views

64. We continue to think auditors would be required to—and would be able to—verify whether the disclosed KOTs and subsequent performance information are what KMP receive to review the business combination.
65. We cannot definitively conclude on whether an auditor would be required to verify a KOT's reasonableness. We also accept concerns about the expectation gap for KOTs. Notwithstanding the concerns, the following clarifications and changes—while not resolving all concerns—could help address some concerns:
- (a) further clarifying the intent of the disclosure requirements;
 - (b) clarifying the nature of targets—that, is that targets are not an accounting estimate as defined in IFRS Accounting Standards;
 - (c) revising the scope of performance information to currency unit targets (Agenda Paper 18D);
 - (d) requiring entities to disclose how performance information is measured (Agenda Paper 18E); and
 - (e) requiring entities to state that KOTs reflect management's expectations at the time of the acquisition (Agenda Paper 18E).
66. In relation to subsequent performance information, and considering some of the changes to the proposals discussed in paragraph 65, in our view:

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- (a) auditors would be required to, and would be able to, verify whether the subsequent performance information disclosed reflects actual performance; and
 - (b) there would not be a significant expectation gap.
67. Assuming the IASB clarifies the requirements for expected synergy information to reflect a management approach, we continue to think that any challenges regarding auditability and the expectation gap would be similar to those for KOTs. We think the solutions discussed in paragraph 65(a), 65(b) and 65(e) should also apply to expected synergy information. These changes, while not resolving all concerns, could help address some concerns.
68. As explained in paragraph 33, we plan to clarify at a future IASB meeting whether KOTs and expected synergy information is based on management's expectations when agreeing the price to acquire the business or at the acquisition date.