STAFF PAPER

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**IASB® meeting**

| Project | Goodwill and Impairment |
|---|---|
| Paper topic | Feedback from additional outreach on disclosures |
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## Purpose and structure

1. As Agenda Paper 18 to this meeting explains, in September 2021 the International Accounting Standards Board (IASB) asked us to further research practical concerns raised by stakeholdhers on the IASB's preliminary views to require entities to disclose information about the subsequent performance of business combinations and quantitative information about any synergies expected from business combinations. The preliminary views were included in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* and are summarised in Agenda Paper 18.
2. This paper summarises feedback from our research.
3. The paper is structured as follows:
   - (a) Key messages (paragraphs 6–9);
   - (b) Feedback on:
     - (i) usefulness of information (paragraphs 15–28);
     - (ii) information disclosed by entities outside financial statements (paragraphs 29–39);
     - (iii) practical concerns (paragraphs 40–70); and
   - (c) Other comments, including:

(i) suggestions from respondents (paragraphs 72–86); and

(ii) other matters (paragraph 87).

4. This paper contains four appendices:

(a) Appendix A—Availability of information.

(b) Appendix B—Feedback from the December 2021 Accounting Standards Advisory Forum (ASAF) meeting.

(c) Appendix C—Feedback from the November 2021 Capital Markets Advisory Committee (CMAC) meeting.

(d) Appendix D—Feedback from the November 2021 Global Preparers Forum (GPF) meeting.

5. Agenda Paper 18 to this meeting includes information about the preliminary views and the research we performed. Agenda Paper 18C to this meeting includes, for information purposes, the staff examples illustrating what we expect an entity might disclose applying the preliminary views. Agenda Paper 18B to this meeting includes our analysis of feedback and discusses potential alternatives.

## Key messages

6. Many preparers expressed concern about the commercially sensitive nature of the information they would be required to disclose applying the preliminary views. Some preparers said disclosing information at the level illustrated in the staff examples would generally not be commercially sensitive but highlighted specific information within those examples that they viewed as being commercially sensitive. Users of financial statements (users) generally said they could accept information at the level illustrated in the staff examples—that information would provide useful information while addressing concerns about the commercially sensitive nature of the information.

7. Some stakeholders view some of the information that would be required applying the preliminary views as being forward-looking. We also understand some of that information might be considered forward-looking applying regulatory frameworks in some jurisdictions. A few jurisdictions have legislation that provides ‘safe-harbour’

protection in respect of forward-looking information disclosed outside financial statements—the entity is protected from litigation by investors for forward-looking information disclosed outside financial statements when those disclosures are made in good faith. For those jurisdictions that provide such 'safe harbour' protection, preparers expressed concerns about the potential for additional litigation that could result from disclosing 'forward-looking' information in financial statements. However, other stakeholders including regulators, did not consider the lack of 'safe harbour' protection to be a barrier to disclosing in financial statements the information illustrated in the staff examples.

8. Both preparers and users expressed concerns about an entity's ability to disclose the required information when an acquired business is integrated into the acquirer's existing operations. Many preparers said it would be difficult to assess whether the performance of a combined business results from a specific business combination. Many users also said they would like more information about a series of acquisitions undertaken to achieve a single strategic objective.

9. Some preparers were concerned about auditors' ability to audit information about targets, the achievement of those targets and information about expected synergies. Almost all auditors said the information would be auditable but at an additional cost.

## Feedback

10. Agenda Papers 18C and 18D to the IASB's April 2021 meeting reported feedback on the IASB's preliminary views. Feedback confirmed that the information that would be disclosed applying those preliminary views would be useful and would help address concerns identified in the Post-implementation Review of IFRS 3. However, the feedback also identified four practical concerns about disclosing that information:

    (a) commercial sensitivity—that information could contain sensitive information that, if disclosed, could harm the entity;

    (b) forward-looking information—that information could contain information about the future that, if disclosed, could increase litigation risk;

(c) integration—an entity may not be able to disclose information that is representative of the performance of a business combination if the acquired business is integrated into the entity's existing operations; and

(d) auditability—some information that would be required by the preliminary views may be costly, or impossible, to audit.

11. In October 2021 the IASB decided that, based on the *Conceptual Framework for Financial Reporting*, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met—such as information about the subsequent performance of a business combination, and quantitative information about expected synergies. The IASB noted that it would continue redeliberating its preliminary views at future meetings, including whether not to proceed with some or all of the disclosure requirements for practical reasons.

12. As explained in Agenda Paper 18, to assist the IASB to better understand the practical concerns raised by stakeholders (paragraph 10), we:

(a) reviewed disclosures made by entities (including those disclosures made in documents other than the financial statements) to understand existing practice (paragraphs 16–20 of Agenda Paper 18);

(b) developed staff examples illustrating the application of the preliminary views and tested them with stakeholders (paragraphs 21–25 of Agenda Paper 18);

(c) discussed specific aspects of the preliminary views with ASAF, CMAC and GPF members at their meetings in November and December 2021 (Appendices B, C and D); and

(d) considered other relevant information and evidence, such as academic studies or other publications, that came to our attention.

13. Based on the additional research, we obtained feedback on:

(a) usefulness of the information (paragraphs 15–28);

(b) information disclosed by entities outside financial statements (paragraphs 29–39); and

(c) practical concerns, including:

 (i) commercial sensitivity (paragraphs 40–51);

 (ii) forward-looking information (paragraphs 52–59);

 (iii) integration (paragraphs 60–66); and

 (iv) auditability (paragraphs 67–70).

14. We also obtained feedback on the availability of the information that entities would be required to disclose applying the preliminary views. This information could be useful in assessing the cost of the IASB's preliminary views. Appendix A summarises feedback we received on this matter.

### *Usefulness of information*

15. Users provided feedback on:

 (a) usefulness of information illustrated in the staff examples (paragraphs 16–21);

 (b) business combinations for which they need information (paragraphs 22–24);

 (c) whether they receive similar information today (paragraph 25); and

 (d) the appropriateness of the level of aggregation of expected synergies (paragraphs 26–28).

#### *Usefulness of information*

16. Almost all users said the information illustrated in the staff examples would be useful. Users said:

 (a) information about strategy, objectives and targets for a business combination in the period of acquisition is useful because it helps them understand what an entity purchased and why the entity paid the price it did.

 (b) disclosing targets at the time of a business combination is important to allow users to measure progress against those targets.

 (c) information about the achievement of targets is needed to assess management's stewardship. These users said that, as a general principle, entities should be required to disclose information that follows up on information disclosed at the time of undertaking a business combination.

17. A few users said there were existing disclosure requirements in IFRS 3 that are also useful but were not illustrated in the staff examples (for example information about the contribution of the acquired business as required by paragraph B64(q) of IFRS 3). In addition, one user said information about the goodwill balance at the reporting date disaggregated by the business combination would be useful.

18. Since we provided the IASB with an academic literature review (see paragraphs 4–28 of Agenda Paper 18F to the IASB's May 2021 meeting), the preliminary views to improve disclosures about business combinations were discussed at the IASB Research Forum in November 2021. A study of Japanese preparers presented at the IASB Research Forum provided some support for the preliminary views[1]. The paper notes that the information could improve users' analysis of a business combination and its effect on the acquiring firm both in the year of acquisition and subsequently. The paper also suggests that the preliminary views might discourage management from entering unprofitable business combinations for personal gain.

19. In December 2021, the CFA Institute published the results of a member survey[2] on goodwill. Although the CFA Institute did not ask about the IASB's preliminary views to improve disclosures about business combinations, the report indicates CFA members would find such information useful. For example, the CFA Institute asked its members to provide their perspectives on the nature of needed disclosure improvements. One of the key areas for improvement identified is:

> Performance of Acquisitions: Investors made it clear that they want more quantitative information on how an acquisition performs, and they want disclosure of the key common performance metrics that management is using to monitor the performance of the acquisition. Qualitative information was lower on the priority list, likely because it is generally boilerplate.

[1] See Amano, Y. (2022), 'Do acquiring firms achieve their mergers and acquisitions objectives? Evidence from Japan'. *Accounting & Finance,* Forthcoming.

[2] See https://www.cfainstitute.org/research/survey-reports/goodwill-investor-perspectives

20. A few preparers said they understand the usefulness of the information that would be disclosed applying the preliminary views and that being required to disclose such information would likely improve governance on business combinations.

21. However, a few preparers said, in their view, users don't need that information to be disclosed in financial statements. Those preparers said:

(a) information is disclosed on a timelier basis through press releases and investor relations events at the time of a business combination. Therefore, providing information in financial statements will not be useful.

(b) information about the subsequent performance of business combinations is already provided through the application of, and disclosures related to, the impairment test in IAS 36 *Impairment of Assets*.

*Business combinations for which information is needed*

22. Paragraphs 2.33–2.40 of the Discussion Paper explain the reasons for the preliminary view that an entity should disclose information about the subsequent performance of business combinations only for those business combinations that are monitored by an entity's Chief Operating Decision Maker (CODM). As noted in paragraphs 2.38–2.39, one of the reasons for this preliminary view was that it may help minimise the costs of preparing the information, focusing on the most important information about the most important business combinations. However, one of the drawbacks is that users may not receive material information on a business combination if the CODM does not monitor that business combination.

23. Many users, including most CMAC members at the CMAC meeting in November 2021, said information is needed for all material business combinations. However, some users, including some who sent comment letters responding to the Discussion Paper, said they need information only for 'significant' business combinations. A few users said:

(a) using an entity's CODM is a good way to identify 'significant' business combinations.

(b) 'significant' business combinations could be identified using a threshold that compares an acquired business to the entity's existing business. For example, information could be required for business combinations in which the revenue or profit of an acquired business exceeds 5% of that of the existing business. This approach is similar to that adopted by some regulators to identify business combinations for which entities are required to disclose particular information under local regulations.

24. Many users suggested also requiring entities to disclose, in aggregate, the information that would be required applying the preliminary views for individually immaterial business combinations undertaken by an entity to achieve a single strategy (linked business combinations). They said linked business combinations are often strategically important when considered as a whole, but entities generally disclose limited information about them because each business combination is individually immaterial. One user suggested implementing a quantitative threshold such that an entity would be required to disclose information if the total transaction price for linked business combinations over a particular rolling period (for example 12 months) exceeds a particular percentage of the entity's average total assets or market capitalisation during that period.

*Do users receive similar information today?*

25. Many users said many entities already provide objectives and targets for business combinations in investor presentations and calls. However, they said disclosing the information that would be required applying the preliminary views in financial statements would be useful. Specifically:

(a) many users said entities generally do not disclose information about the subsequent performance of business combinations. In particular, entities do not generally follow-up on objectives and targets disclosed at the time of a business combination.

(b) a few users said entities disclose information about business objectives and expected synergies in different documents and it would be helpful to have all the information located in a single note in financial statements. One user also said some entities remove information previously disclosed from their websites and said requiring that information to be disclosed in financial statements would ensure the information continues to be available. This would help users analyse past transactions.

*Level of aggregation of information about expected synergies*

26. Consistent with the IASB's tentative decision in November 2021, the total expected synergies illustrated in the staff examples were disaggregated by nature (for example, total revenue, total cost and totals for other types of synergies).

27. Most users said this level of aggregation would provide useful information and agreed that quantitative information about expected synergies should be disaggregated by nature. Most users understood that disclosing expected synergies at more disaggregated levels might result in entities disclosing commercially sensitive information. However, one user who agreed with the level of disaggregation of information in the staff examples was sceptical whether entities would disclose such disaggregated information.

28. One user said information about expected synergies should be disaggregated by line items in financial statements rather than by nature. That user said doing so would help users more accurately model the effect of a business combination.

## ***Information currently disclosed by entities outside financial statements***

29. In reviewing disclosures about business combinations (see paragraphs 16–20 of Agenda Paper 18 to this meeting) we considered whether entities disclosed:
    (a) qualitative information about a business combination's strategic rationale and objectives (paragraph 30–31);
    (b) quantitative information about management's targets in the year of acquisition (paragraphs 32–34);
    (c) quantitative information about the subsequent achievement of those targets (paragraphs 35–36); and
    (d) quantitative information about expected synergies (paragraphs 37–39).

*Qualitative information about strategic rationale and objectives*

30. All entities in our sample disclosed the strategic rationale for a business combination, and almost all qualitatively described the business combination's objective(s).

31. In many cases the strategic rationale reported in press releases and investor presentations at the time of acquisition was similar to the primary reasons for the business combination disclosed in financial statements applying paragraph B64(d) of IFRS 3.

*Quantitative information about targets in the year of acquisition*

32. Many entities applying IFRS Accounting Standards disclosed quantitative information about possible targets in the year of acquisition. All US-based entities applying US GAAP disclosed such information. The table below provides further information:

| Description | Entities applying IFRS Accounting Standards | Entities applying US GAAP |
|---|---|---|
| Disclose possible quantitative targets | 13 | 5 |
| Don't disclose quantitative targets | 6 | - |
| **Total** | **19** | **5** |

33. In almost all cases, the quantitative targets disclosed relate to information about expected synergies (see paragraphs 37–39). A few entities disclosed revenue targets (two entities disclosed a revenue target for the acquired business, one disclosed a revenue target for the reporting entity, one disclosed a revenue target for the reported segment which the acquired business was integrated into). A few entities disclosed other targets such as earnings-per-share, internal rate of return or earnings before interest, depreciation and amortisation. We are not able to confirm whether the targets disclosed by management are targets that they use to monitor the performance of business combinations—that is, the targets an entity would disclose applying the preliminary views. It is therefore unclear whether these entities would disclose the same targets if they were to apply the preliminary views.

34. In all cases, quantitative information about targets was disclosed in press releases announcing the business combination, management commentary or investor presentations—not financial statements.

*Quantitative information in subsequent periods*

35. Many entities in our sample disclosed a quantitative or qualitative update on the achievement of targets in subsequent years. Such information was disclosed in management commentary. The table below summarises our review:

| Description | Entities applying IFRS Accounting Standards | US Entities |
|---|---|---|
| Provide some quantitative update | 8 | 4 |
| Provide qualitative update | 4 | - |
| Provide no update | 7 | 1 |
| **Total** | **19** | **5** |

36. In almost all instances in which entities disclosed information about the achievement of targets, they did so for between one to three years after the business combination. One entity disclosed information about the achievement of targets only in the first interim reporting period after the business combination.

*Quantitative information about expected synergies*

37. Most entities in our sample disclosed quantitative information about expected synergies arising from a business combination. This information was disclosed either in press releases or investor presentations at the time of the acquisition or in management commentary. A few entities did not disclose quantitative information about expected synergies in press releases at the time of acquisition but in subsequent periods disclosed in management commentary the initial estimate of expected synergies with an update on achieving those expectations.

38. Some entities applying IFRS Accounting Standards disclosed no quantitative information about expected synergies. Those entities did not identify synergies as a factor that makes up goodwill applying paragraph B64(e) of IFRS 3.

39. Of entities that disclosed quantitative information about expected synergies, the level of aggregation of those expected synergies varied. Some entities disclosed information about the total expected synergies, while some disaggregated total expected synergies by nature, and a few (only entities applying US GAAP) disaggregated total expected synergies by financial statement line item. The table below summarises our review:

| Description | Entities applying IFRS Accounting Standards | US entities |
|---|---|---|
| Disclose synergies by line item | - | 2 |
| Disclose total cost and total revenue synergies separately | 6 | 3 |
| Disclose total expected synergies | 5 | - |
| Disclose total expected amount only in subsequent periods, not in year of acquisition | 2 | - |
| Don’t disclose quantitative information but say synergies are a material component of goodwill | 2 | - |
| Don’t disclose quantitative information but cite other factors as being material components of goodwill | 4 | - |
| **Total** | **19** | **5** |

## *Practical concerns*

### *Commercial sensitivity*

40. We separately summarised feedback on the commercially sensitive nature of the information that would be disclosed applying the preliminary views between disclosures about:

    (a) the subsequent performance of business combinations—for example strategy, targets and subsequent achievement of targets (paragraphs 42–45); and

    (b) expected synergies (paragraphs 46–49).

41. We also provide an update on our academic literature review (paragraphs 50–51).

### Subsequent performance of business combinations

42. Most preparers expressed at least some level of concern about the commercially sensitive nature of information illustrated in the staff examples. Some preparers said all information about a business combination’s strategies, objectives and targets (including subsequent achievement of targets) would be so commercially sensitive that it should not be required. Most other preparers said the aggregated levels at which information was disclosed in the staff examples would be generally acceptable (this is not overly commercially sensitive) but highlighted specific information within those

examples that, in their view, would be so commercially sensitive that it should not be required. This included quantitative information on management's target about:

(a) employees—the first staff example (see Agenda Paper 18C to this meeting) illustrated an objective (and a related target) to retain the acquired entity's key management personnel. Some preparers said this information could:

    (i) be used by those employees as leverage against the entity during salary negotiations; and

    (ii) demoralise employees who are not part of the acquired entity's key management personnel.

    Although not illustrated in the staff examples, some preparers said similar concerns would also apply to information about potential job losses resulting from restructuring plans.

(b) market plans (for example information about market share or plans to launch a particular product)—a few preparers said disclosing quantitative market share targets could intensify market competition because the information could allow competitors to take action to prevent the entity from achieving its targeted market share. One preparer said disclosing such targets could attract the attention of market regulators and increase the risk of anti-trust actions against the entity. A few preparers said disclosing information about plans to launch a new product (for example information about the new platform and associated marketing plan illustrated in the second staff example) will also give competitors information with which they can try to prevent the entity from achieving its objectives.

(c) target revenue and/or profit—a few preparers said disclosing quantitative targets about revenue and/or profit could reveal entities' strategic focus and invite greater competition, ultimately damaging the entity's performance. One preparer said an entity may often set aspirational targets to motivate the acquired entity's management and may not wish to disclose its expected, and often lower, target. Another preparer said an acquirer often signs indemnification agreements with the seller where the acquirer would be entitled to compensation if agreed targets are not met. The preparer said disclosing expected targets that are below the thresholds included in indemnification agreement could impact the entity's ability to enforce its legal rights under the indemnification agreements.

43. Other comments regarding commercial sensitivity included:

(a) *quantitative vs qualitative information:* Some preparers said quantitative information about management's targets is commercially sensitive. One preparer said quantitative information about the subsequent achievement of initial targets is commercially sensitive but the entity could provide a qualitative update. However, one other preparer said even qualitative information about strategy could be commercially sensitive. In particular, that preparer said disclosing information about an acquisition at the start of a series of linked business combinations when an entity is trying to enter a new market would be commercially sensitive.

(b) *consideration of existing shareholders:* A few preparers said disclosing the information that would be required applying the preliminary views could benefit potential investors at the expense of existing shareholders. In their view, management are stewards of existing shareholders and should therefore place the interests of existing shareholders above that of other stakeholders.

(c) *level-playing field with entities applying US GAAP:* A few preparers and one user said US GAAP does not require entities to disclose information similar to information that would be required applying the preliminary views. These respondents said requiring entities to disclose that information would disadvantage entities applying IFRS Accounting Standards.

44. Some preparers acknowledged users' needs for additional information and did not oppose providing better information about business combinations at the level of aggregation illustrated in the staff examples—that level of aggregation would not, in their view, be commercially sensitive. A few preparers said in their jurisdictions, entities are required to disclose such information about significant business combinations in management commentary. A few of these preparers said they disclose follow up information about the subsequent performance of business

combinations either on a voluntary basis or because local regulations require them to follow up previously disclosed targets.

45. We did not observe any geographical or industry trend in views about commercial sensitivity. For example, entities within the same jurisdictions and industries have different views on whether, and to what extent, information included in the staff examples would be so commercially sensitive that it should not be required. During outreach, we observed that different individuals within an entity may also have different views about this matter. We did not observe a clear relationship between the difference in views of such individuals and the level of seniority or positions they hold within the entity.

### Expected synergies

46. Many preparers said quantitative information about expected synergies disaggregated by nature of synergies (for example, total revenue synergies) is not commercially sensitive. Those preparers said entities often disclose such information in documents outside financial statements. This is consistent with our research findings (see paragraph 37–39).

47. However, many preparers said disclosing quantitative information about expected synergies, even if disaggregated only by nature, would be so commercially sensitive that it should not be required. Those preparers said such information:

    (a) informs competitors about how the entity prices business combinations. In particular, those preparers said an entity will generally estimate a stand-alone price for a target business and an amount for expected synergies when determining the price the entity is willing to pay for that business. Those preparers said disclosing quantitative information about expected synergies could allow competitors and potential future targets estimate the entity's highest price. This information could be used to force the entity to pay more for future targets.

    (b) is more specific than qualitative information and the quantum of expected cost synergies often sends a stronger signal of the size and scope of potential redundancies than a qualitative statement about the existence of synergies.

These preparers said quantitative information about expected synergies could therefore demoralise an entity's workforce and lead to legal complications if redundancy plans are disclosed in financial statements before that information is communicated to affected employees.

48. A few preparers said even a qualitative statement about expected synergies would be commercially sensitive because of the information it provides an entity's employees. [3] Those preparers said employees are likely to consider 'synergies' to mean 'redundancies'.

49. However, one preparer explicitly disclosed in a press release at the time of a business combination that the entity expected cost synergies from workforce reductions. In that preparer's view, it is important to be transparent because the market and affected employees would expect redundancies when there is a significant business combination regardless of whether the entity discloses that fact.

### Academic literature review

50. As noted in our academic literature review (see paragraphs 20–28 of Agenda Paper 18F to the IASB's May 2021 meeting), there is evidence[4] of entities not disclosing information they consider to be commercially sensitive (often called proprietary costs in academic literature).

51. Since that literature review, we have been made aware of an additional relevant academic paper. Berger and Hann (2007)[5] note that academic evidence that supports decisions being made on the basis of commercial sensitivity could also be consistent with what they term 'agency cost motive'—that is management of an entity deciding not to disclose information that could result in an unfavourable impression of their

[3] Paragraph B64(e) of IFRS 3 requires an entity to disclose for each business combination that occurs in the reporting period 'a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.'

[4] For example, Mazzi, F., André, P., Dionysiou, D., and Tsalavoutas, I. (2017), 'Compliance with Goodwill Related Mandatory Disclosure Requirements and the Cost of Equity Capital', *Accounting and Business Research*, 47 (3), 268-312.

[5] Berger, P.G., and Hann, R.N. (2007), 'Segment Profitability and the Proprietary and Agency Costs of Disclosure', *The Accounting Review*, 82 (4), 869-906.

performance and heightened external monitoring. To test this hypothesis Berger and Hann (2007) reviewed information about reportable segments disclosed by entities applying US GAAP standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*. Berger and Hann (2007) found results consistent with the ‘agency cost motive’ but did not find evidence consistent with the ‘proprietary costs hypothesis’ (that is commercial sensitivity).

### *Forward-looking information*

52. Paragraph 3.6 of the *Conceptual Framework for Financial Reporting* describes forward looking information as ‘information about possible future transactions and other possible future events’ and says forward-looking information can be required in financial statements if it relates to the entity’s assets or liabilities and is useful. As explained in paragraphs 2.29–2.32 of the Discussion Paper the IASB did not consider the information that would be disclosed applying the preliminary views to be forward-looking because it is information about a past transaction (the business combination) and not possible future transactions or events.

53. However, many preparers said the information required applying the preliminary views, or at least some aspects of that information is, in their view, forward-looking. They consider forward-looking information to be any information that can be used to understand management’s expectations for future performance. Those preparers and a few regulators said information about management’s targets in the year of the business combination and quantitative information about expected synergies are examples of information they consider forward-looking.

54. We asked some preparers why disclosing information about key assumptions (such as discount and growth rates) used in the impairment test (which entities are required to disclose applying paragraph 134 of IAS 36) is acceptable but disclosing information that would be disclosed applying the preliminary views would not be. These preparers said:

    (a) key assumptions in the impairment test are generally based on market inputs (for example risk-free rates and government bond yields) with some entity-specific adjustments. Because those market inputs are publicly available, disclosing information about key assumptions does not provide much information the market does not already know.

(b) disclosing information such as discount rates in financial statements is usual business practice. Therefore, providing such information would not usually give rise to additional litigation risk.

55. ASAF members also discussed a similar question at their meeting in December 2021 (see Appendix B). One ASAF member said there is a difference between disclosing information about accounting estimates and management's targets in a business combination because accounting estimates directly underpin the measurement of an item in financial statements, while management's targets do not. However, one IASB member highlighted that management's targets are assumptions underpinning the price management would pay for a business combination. That price is reflected in the measurement of recognised assets and liabilities (including goodwill) arising from the business combination.

56. A few preparers and ASAF members who expressed concern about forward-looking information did so because, in their view, forward-looking information should be disclosed in management commentary rather than in financial statements.

57. In addition, a few regulators said some of the information required applying the preliminary views could be 'forward-looking' as defined in some jurisdictional regulations (such as information about management acquisition-date objectives for the business combination) and disclosing such forward-looking information could have regulatory implications. Outreach participants identified possible effects of disclosing forward-looking information in financial statements:

(a) most preparers expressing concern did so because of the additional litigation risk that could arise from disclosing the information in financial statements. Most of these preparers are listed in the US and qualify for 'safe-harbour' protection that applies to information disclosed in documents other than financial statements or prospectuses. 'Safe harbour' protection protects an entity from litigation from investors if forward-looking information disclosed in good faith differs from management's expectation. Our outreach identified that similar protection exists in Canada. In other jurisdictions, particularly

Europe, preparers said they include a disclaimer about forward-looking information in management commentary and other documents but not in financial statements. However, feedback from some European regulators suggested that such disclaimers generally do not protect entities from litigation that may arise from disclosing forward-looking information.

(b) some jurisdictions, for example Australia and Canada, have ‘continuous disclosure requirements’ related to forward-looking information. We understand that:

(i) Australian securities law requires an entity to disclose changes to previously disclosed targets. However, an Australian preparer participating in our outreach said they do not see this as a barrier to applying the preliminary views because the entity already discloses similar information outside financial statements and complies with local securities law in subsequent periods.

(ii) Canadian securities law requires an entity to disclose additional information about forward-looking information. This includes identifying that information as forward-looking, including a cautionary statement that results may differ and explaining the assumptions underpinning that information. In subsequent periods, if the entity determines it will not be able to achieve previously stated targets, the entity is required to update those targets. This is required in each filing of the entity’s financial statements (on a quarterly basis). If the entity determines the targets are no longer achievable, it is required to formally withdraw those targets.

58. A few other preparers said they were not particularly concerned about disclosing information that could be forward-looking in financial statements. One preparer said there is a greater risk of adverse market reaction if an entity does not disclose such information on a timely basis to guide market expectations. Another preparer said if the preliminary views were adopted and endorsed in its jurisdiction, it is unlikely that following such rules would give rise to additional litigation risk.

59. Other stakeholder types, including some regulators, said the lack of 'safe harbour' protection for information disclosed in financial statements should not be a barrier to requiring entities to disclose the information that would be required applying the preliminary views.

*Integration*

60. In developing the Discussion Paper, the IASB heard concerns about the possibility of providing information about the extent to which management's objectives for a business combination are met if an acquired business is integrated into existing operations. Paragraphs 2.25–2.26 of the Discussion Paper state:

> 2.25 The Board's preliminary view would require companies to disclose information management uses to monitor the subsequent performance of an acquisition. If management plans to integrate an acquired business, it is possible that management plans to monitor the subsequent performance of the acquisition using information about the combined business. Companies would be required to disclose this combined information because management is using this combined information to understand how the acquisition is performing.
>
> 2.26 Depending on the relative sizes of the acquired business and the business into which it is integrated, management may receive some commentary explaining what the information about the combined business signals about the performance of the acquisition. This commentary would be provided so that management can understand whether the objectives set for the acquisition are being met. Companies would also be required to disclose this commentary if investors need it to understand whether those objectives are being met, because it is part of the information management is using to monitor the performance of the acquisition.

61. The staff examples illustrate situations in which an entity's management monitors the performance of a business combination by reviewing information about the operating segment into which an acquired business has been integrated.

62. Many preparers said when an acquired business is integrated, management review the subsequent performance of that business combination based on the combined business. However, those preparers said it would be difficult to determine whether the business combination is performing as intended and, consequently, whether the objectives of the business combination are met. For example, an entity might meet the target set for the combined business—this could be the case if both the acquired business and pre-existing operations have performed in line with expectations, or if, for example, the acquired business has performed below management's expectation, but that underperformance has been offset by overperformance of the pre-existing operations. Identifying whether, and to what extent, the performance of the acquired business met its objectives or contributed to the success of the combined business might be difficult.

63. A few users said the disclosures illustrated in the staff examples did not provide sufficient information about the incremental effect the business combination had on the entity. For example, in the first example, these investors said that they would like to know what the revenue and profit of segment Beta would have been without the business combination in order to better understand the incremental contribution of the business combination to the entity.

64. A few preparers, including a few preparers at the November 2021 GPF meeting, said the entity might integrate a significant acquired business into an existing business and monitor the acquired business at the operating segment level, or that the acquired business could itself be a new operating segment. These preparers said information about the subsequent performance of such significant business combinations that would be disclosed applying the preliminary views would be similar to that already disclosed applying IFRS 8 *Operating Segments*. Those preparers:

    (a) questioned whether the information disclosed in subsequent periods applying the preliminary views would provide additional useful information; and

    (b) said information about management's targets for reportable segments that would be disclosed in the year of the business combination applying the preliminary view is 'internal information' that should not be disclosed.

65. Some preparers said there can be a disconnect between the information an entity's management reviews at the time of a business combination and information management subsequently reviews. For example, some preparers said an entity's internal mergers and acquisitions team is likely to prepare information for management at the time of the business combination. Such information usually includes information about the expected future performance of the business combination that justifies the purchase price. However, in subsequent periods, an entity's CODM generally reviews only annual budgets. For particularly large business combinations, the budget for the period in which the business combination occurs might be updated to reflect the expected contribution of the business combination for the remainder of that period. However, after that period management would review only updated budgets for the combined business. Management would not usually subsequently review or compare the actual subsequent performance of the business combinations to the management's initial expectations at the time of the business combination.

66. A few preparers asked what an entity would disclose as its targets for each business combination if the entity undertook several business combinations in one reporting period, all of which affected the same integrated business reporting unit (for example, the same operating segment).

*Auditability*

67. Many preparers, some ASAF members and one auditor said some of the information that would be required applying the preliminary views could be difficult to audit because:

    (a) metrics could be subjective and could require significant judgement. In particular, some preparers said 'non-financial' or 'non-GAAP' metrics, such as market share, could be difficult to audit. IFRS Accounting Standards do not define such metrics and the calculation of those metrics may vary between entities. Preparers who raised this said entities might need to spend a significant amount of time and effort with auditors to help them audit such information.

(b) it might be difficult to assess whether, and to what extent, subsequent performance of a business unit into which an acquired business is integrated results from the performance of the business combination (see paragraph 62).

(c) the level of precision required for information used by management when assessing potential business combinations is generally lower than what would be acceptable for information disclosed in financial statements. Preparers who said this explained that management might be willing to accept a higher risk, and consequently, a lower level of precision in the related information when pursuing business combinations. However, that level of risk and imprecision may be unacceptable to auditors and management for financial reporting due to their legal responsibilities in respect of financial statements.

68. Most auditors said the information that would be required applying the preliminary views would be difficult to audit but would be manageable, particularly if the scope of the audit work in the year of a business combinations would include auditing only that the disclosed objectives and metrics are those used by management internally to monitor the business combination. Auditors would not be able to assess whether those objectives and metrics are appropriate, reasonable or attainable. Auditors were concerned that their audit could be interpreted as providing assurance over the appropriateness, reasonableness and attainability of the objectives and metrics, potentially creating a gap between the information audited and expectations of what has been audited (expectation gap).

69. We asked auditors whether and how auditing the information that would be disclosed applying the preliminary views would differ from auditing impairment tests performed by entities. They said auditing the information that would be disclosed applying the preliminary views would be more difficult because:

(a) inputs into the impairment test are generally provided by finance personnel and are subject to good internal controls. Auditors can test and rely on these controls. Similar levels of internal control might not exist for information that would be disclosed applying the preliminary views.

(b) key assumptions in impairment tests (such as discount rates) rely significantly on market-based inputs (see paragraph 54) and are therefore less complex to audit than information that would be disclosed applying the preliminary views (which would involve more judgement).

70. Some preparers and most auditors said the concern about auditing the information relates to the cost of auditing, rather than the ability to perform an audit because:

    (a) the auditor could be required to perform additional audit work, including audit of controls, especially for metrics not typically produced by financial reporting systems tested by auditors. For example, a few auditors and preparers said this would be the case for the metric about average active users of an entity's service platform (see second staff example).

    (b) the auditor might charge higher audit fees as a result of being exposed to extra litigation risk.

## Other comments

71. During outreach respondents also:

    (a) provided suggestions on how to address the practical concerns (paragraphs 72–86); and

    (b) commented on other matters (paragraph 87).

### *Respondents' suggestions*

72. Many respondents suggested ways to address preparers' concerns while providing users with better information about business combinations, including:

    (a) requiring information for only 'significant' business combinations (paragraphs 74–76);

    (b) requiring disclosure of the information in management commentary (paragraph 77);

    (c) permitting disclosure of information about management's targets as a range (paragraphs 78–80);

    (d) not requiring information about management's targets (paragraphs 81–85); and

(e) reintroducing amortisation of goodwill (paragraph 86).

73. Agenda Paper 18B discusses our suggestions on possible ways forward. We considered respondents' suggestions when developing possible alternatives in that paper.

*'Significant' business combinations*

74. Some preparers, including some that said information illustrated in the staff examples is commercially sensitive, disclose information similar to that illustrated in the staff examples outside financial statements. These preparers said they typically disclose information for 'significant' business combinations because the market would penalise them for failing to do so. For these preparers, the cost of not providing such information for those 'significant' business combinations is higher than any potential cost of disclosing commercially sensitive information.

75. Some preparers said:

(a) using an entity's CODM as the threshold to determine whether an entity is required to disclose information about a business combination would require them to disclose information about smaller business combinations and that would not meet that cost benefit balance; and

(b) applying the IASB's preliminary views would take away management's ability to decide which business combinations are 'significant' and what kind of information management would provide, if any, for each of those business combinations.

76. A few preparers and one auditor supported the preliminary view to use CODM as the threshold. These respondents said using CODM as the threshold is a practical approach to balancing users' need for additional information without over-burdening preparers.

### *Management commentary*

77. Many preparers and a few ASAF members said the information required applying the preliminary views should be disclosed in management commentary rather than in financial statements.[6] Their reasons included:

    (a) information in management commentary would be unaudited—a few preparers said disclosing the information in management commentary would avoid auditability concerns (see paragraphs 67–70). However, German preparers said in their jurisdiction information in management commentary is subject to the same audit requirements as financial statements.

    (b) reduced litigation risk—some jurisdictions protect entities from litigation in respect of information disclosed in management commentary but not in financial statements (see paragraph 57). Some stakeholders said an entity might be willing to disclose better information if the entity is able to use that protection.

    (c) avoid duplication—a few preparers said entities already disclose information similar to that required by the preliminary views in management commentary.

    (d) the nature of the information—the information required applying the preliminary views represents management's view of a business combination and therefore belongs in management commentary.

### *Disclosing a range*

78. Paragraph 2.66 of the Discussion Paper notes an entity could provide quantitative information about expected synergies as a range rather than a point estimate. The Discussion Paper is silent on whether an entity would be able to provide quantitative information about acquisition date metrics as a range.

[6] At its October 2021 meeting, the IASB tentatively decided that, based on the *Conceptual Framework for Financial Reporting*, information that would be disclosed applying the preliminary views can be required in financial statements.

79. Many preparers and some auditors suggested allowing entities to disclose a range rather than a point estimate for acquisition date metrics and expected synergies from a business combination. Those participants said:

(a) a range might be less commercially sensitive than a point estimate.

(b) because of the inherent, and often significant, uncertainty in an entity's ability to achieve management objectives and expected synergies for business combinations, management is likely to be more willing to disclose that information as a range rather than a point estimate. This might also help with auditability concerns because a range allows for a greater margin for error than a point estimate.

80. A few users also acknowledged the difficulty entities may have in providing a single point estimate for targets and would accept disclosure of a range.

*Not requiring quantitative information about targets*

81. Many preparers suggested allowing entities to provide qualitative information about management targets rather than requiring entities to provide quantitative information. In their view, qualitative information about management targets is less commercially sensitive, less likely to be considered forward-looking and would be easier to audit.

82. In its October 2021 meeting, the IASB discussed a possible way to mitigate preparers' concerns about commercial sensitivity and forward-looking information by not requiring entities to disclose quantitative information about management's objectives and expected synergies in the financial period in which the business combination occurs (see paragraph 26–31 of Agenda Paper 18B to the IASB's October 2021 meeting). However, in subsequent periods an entity would be required to disclose the actual figure for the metric management used to monitor the business combination and whether that performance met management's initial expectations.

83. A few preparers said such an approach would not address concerns about integration preventing information about the subsequent performance of business combinations from being measured and disclosed (see paragraphs 60–66). One preparer said it is easier to disclose information about acquisition date targets than to disclose information about the subsequent achievement of those targets. Entities often have

documentary evidence of valuation models used to determine the transaction price, which could be used to support disclosure of acquisition date targets and objectives. Such evidence may not always exist for the subsequent achievement of targets, particularly when an acquired business is integrated.

84. Some users said without knowing management's acquisition date target for the business combination, they will not be able to assess whether the entity has paid the right price for a business combination (one of the additional disclosure objectives identified in the Discussion Paper). However, one user said this approach would be acceptable because they do not place much reliance on management's targets when analysing the value of the entity. That user said they focus on the return on investment and an entity should be required to disclose the return on investment for business combinations.

85. One user said not disclosing the initial target but disclosing in subsequent years whether the target was met would put additional pressure on auditors to be able to confirm management's initial targets.

*Reintroduce amortisation of goodwill*

86. A few preparers suggested reintroducing amortisation of goodwill instead of requiring additional disclosures about business combinations because, in their view:

(a) doing so would avoid requiring entities to disclose commercially sensitive information; and

(b) recognising an amortisation expense more effectively holds management to account for a business combination because the entity would be required to generate sufficient returns to be profitable in the light of the additional amortisation expense.

## *Other comments*

87. Other comments from participants included:

(a) some preparers suggested providing extensive examples illustrating how an entity should disclose the information that would be required applying the preliminary views in different scenarios. For example, some preparers suggested providing an example illustrating what an entity should disclose if a business combination failed.

(b) a few preparers acknowledged users' need for better information about business combinations. However, these preparers asked why improved disclosures should be required only for business combinations and not also for other types of transactions (such as capital expenditures).

(c) some participants highlighted other aspects to consider including:

  (i) whether, and if so, how, the preliminary views should apply in interim financial statements;

  (ii) how an entity should apply the preliminary views in subsidiaries' financial statements; and

  (iii) transition arrangements.

| **Question for the IASB** |
|---|
| Do IASB members have any comments or questions on the feedback discussed in this paper? Specifically:<br>(a) is there any feedback that is unclear?<br>(b) are there any points you would like staff to research further prior to a decision on whether to proceed with its preliminary views to add disclosure requirements for entities to provide information about the subsequent performance of business combinations and quantitative information about expected synergies? |

## Appendix A—Availability of information

A1. During outreach we asked preparers whether information similar to that included in the background section of the staff examples is available internally:

(a) at the time of a business combination (paragraphs A2–A4); and

(b) in subsequent periods (paragraphs A5–A8).

### *Information at the time of the business combination*

A2. Most preparers said information is available at the time of the business combination. A few preparers said while such information might exist, the business objectives and targets may not be as detailed or quantified as in the staff examples.

A3. A few preparers said entities use internal valuation models, which use management's plans and objectives as inputs, to derive an acceptable base-line price which forms the starting point for negotiations. The actual price paid could often be different due to negotiation dynamics. Therefore, management's valuation for a business combination might not always reflect the purchase price.

A4. Outreach participants also provided us with information about the approval and review process for business combinations. Business combination proposals are usually prepared by the relevant business segment, or a dedicated merger and acquisition department. Depending on the size of the business combination, it may be authorised by the CODM or another level of management. For smaller business combinations, approval from a lower level of management might suffice. One preparer said its CODM is not the highest level of management within the entity, and that for large acquisitions, approval is needed from the entity's board of directors that sits above the CODM.

### *Information in subsequent periods*

A5. The IASB's preliminary view would require entities to disclose information used by the entity's CODM to assess the performance of a business combination.

A6. Almost all preparers said their CODM reviews some business combinations and therefore for some business combinations the information about subsequent performance that would be required applying the preliminary views is available. However, many preparers said the review of subsequent performance of business combinations may be performed by a lower level of management than the CODM. The CODM would review the performance of business units and would not normally review the performance of an individual business combination. In their view:

(a) an acquired business is often quickly integrated into existing operations. Management's targets are set for the combined business and the performance of the acquired business is included and reviewed as part of that combined business.

(b) the role of a CODM is future-oriented and it is reasonable for a CODM to delegate the responsibility to monitor and review the performance of individual business combinations. Some preparers said their CODM reviews the performance of a specific business combination only if performance is not according to plans. Applying the preliminary views could produce counterintuitive results in such a situation because an entity would be required to disclose that its CODM is not monitoring a business combination (implying poor management stewardship of the entity's resources) when that business combination was performing in line with expectations, and that the CODM is reviewing a business combination (which implies good stewardship) when that business combination is performing badly.

A7. A few preparers said an entity might perform a one-off targeted review of the performance of the business combination for significant business combinations. This kind of review typically takes place a few years after the business combination.

A8. A few participants said the IASB should consider what constitutes 'monitoring' of a business combination by a CODM. One preparer said, in its view, the entity's CODM reviews the performance of a business combination only if the reports reviewed by the CODM include substantive analysis of the performance and business plans for the business combination. One preparer said an entity's business plans could change over time after a business combination occurs, and that the original metric or target may no longer be applicable. If the entity is required to disclose information based on the original metric, the entity might need to produce that information solely for financial reporting. This would not be in line with the management approach outlined in the preliminary views.

## Appendix B—Feedback from the Accounting Standards Advisory Forum (ASAF) meeting in December 2021

B1. The objective of this session was to update ASAF members on the IASB's recent discussions, and to obtain feedback from ASAF members on staff examples illustrating the information the staff expect an entity to disclose when applying the IASB's preliminary views about adding disclosure requirements to IFRS 3 *Business Combinations*. The staff asked for ASAF members' views on their discussions with their stakeholders about:

(a) whether the aggregation of information in the disclosures section of the staff examples, compared to the background section, achieves the right balance between providing useful information to users of financial statements and not disclosing information that is too commercially sensitive (paragraphs B2–B12);

(b) whether, considering legislation and regulations in their jurisdictions, any information in the disclosure section would raise significant additional litigation risk if disclosed in financial statements and why (paragraphs B13–B17); and

(c) other comments on the staff examples (paragraphs B18–B22).

### *Commercial sensitivity*

#### *General feedback*

B2. The AcSB and EFRAG members said the staff examples were useful but simplistic illustrations. The EFRAG member said it would be useful to include examples that address concerns about commercial sensitivity by including commercially sensitive information in the underlying fact patterns. For example, illustrating a fact pattern in which an entity acquires a business to obtain sufficient market power to set monopolistic prices.

B3. The AcSB member said there is a natural tension between feedback from preparers and users. The AcSB member also said that, to try to bridge that tension, it might be worth considering statements management makes about a business combination in investor roadshows.

*Preparer feedback*

B4. The ANC, AOSSG, ASBJ, KASB and OIC members reported that preparers in their jurisdictions said some or all information in the staff examples is, in their view, commercially sensitive. The ANC member said preparers in his jurisdiction expressed concern that information in the staff examples could provide competitors with insights into the entity's strategy and potential future business combinations.

B5. The ASBJ member said the staff examples helped preparers in his jurisdiction better understand the IASB's preliminary views and reduced some concerns about commercial sensitivity. However, the ASBJ member said some concerns about commercial sensitivity remain.

B6. ASAF members mentioned aspects of the staff examples that preparers in their jurisdictions said could be commercially sensitive:

(a) numerical information about management's objectives;

(b) non-financial metrics;

(c) market share information;

(d) information about employment;

(e) quantitative information about expected synergies; and

(f) qualitative information about synergies because such information is often perceived as relating to redundancies.

B7. The ARD member said quantitative information could be commercially sensitive. The KASB member said it would be possible to disclose qualitative information but preparers would be sceptical as to whether qualitative information alone would be useful to users.

B8. The AcSB and ARD members said it is difficult to determine whether the preliminary views would require the disclosure of commercially sensitive information because whether information is sensitive depends on the facts and circumstances.

B9. The PAFA member said:

(a) the small number of comments that PAFA received were positive.

(b) it is worth considering similar feedback the IASB received during the development of IFRS 3 and IFRS 8 *Operating Segments*. In both cases preparers said the information disclosed when applying those Standards could be commercially sensitive, but entities have since been able to apply those Standards without disclosing commercially sensitive information.

B10. Some ASAF members commented on whether there is a difference between assessing the commercial sensitivity of information about management's targets in the year of acquisition and assessing historical information about whether those targets were achieved. The ANC and OIC members said there is no difference. However, the AcSB member said it depends—information about a successful business combination in future periods is likely to be less commercially sensitive. The AcSB member also said that, in her experience, requiring disclosure of information about business combinations can invite strong reactions, because it is an area where it can be obvious whether management has made a good or bad decision.

*User feedback*

B11. The ARD, ASBJ and EFRAG members said the information in the staff examples is useful to users. The EFRAG member said users consulted by EFRAG said this type of information would also be useful for investments other than business combinations, for example, if an entity starts to operate in a new market.

B12. The KASB member said users in his jurisdiction were sceptical as to whether the information in the staff examples would be useful because those users were concerned that the information might be unreliable.

## *Litigation risk*

B13. The AcSB and FASB members said 'safe-harbour' protections exist in their jurisdictions. 'Safe-harbour' provides entities with protection from litigation by users of forward-looking information published in some documents other than financial statements.

B14. The ASBJ, ANC and ARD members said no 'safe-harbour' protections exist in their jurisdictions. However, the ANC member said some information could attract additional litigation risk if disclosed because of particular sensitivities—for example, information about earn-out clauses or information about synergies that could provide employees with sensitive information about planned restructurings.

B15. ASAF members discussed whether information about management's targets for a business combination differs from other information in financial statements, such as information about assumptions used in the impairment test in IAS 36 *Impairment of Assets* or the expected credit loss model in IFRS 9 *Financial Instruments*.

B16. The FASB member said there is a difference between accounting estimates and management's targets in a business combination because accounting estimates directly underpin the measurement of an item in financial statements, while management's targets do not. However, one IASB member said management's targets in a business combination are the assumptions underpinning the price management would pay for that business combination. That price is reflected in the value of the assets and liabilities recognised because of the business combination, including goodwill.

B17. The KASB member said management's targets in a business combination are unlikely to be management's best estimate of what is likely to result from the business combination—management's targets are an ambition and could be optimistic. The KASB member said management's targets are not a neutral reflection of the expected performance of the business combination. Accordingly, management's targets are not faithfully representative and cannot be considered useful information when applying the *Conceptual Framework for Financial Reporting*. One IASB member said the preliminary view is intended to require an objective and neutral assessment of what management assumed when acquiring the business.

### *Other comments*

B18. The ANC member said the IASB should consider that the performance of business combinations could be affected by events outside management's control. The ANC member suggested following a principle-based approach without being too specific.

That principle-based approach should focus on the key success factors of a business combination, rather than detailed information, because circumstances change and business units evolve.

B19. The ARD member reported feedback that:

(a) the staff examples focused on business combinations in which much of the recognised goodwill balance represents expected synergies. However, not all business combinations are done to obtain material synergies.

(b) it might be difficult to disclose quantitative information about management's objectives if management does not make decisions using quantitative information.

B20. The AcSB member said that, if the IASB required the disclosure of 'non-GAAP' information, that information would become part of GAAP and, therefore, the IASB would need to provide guidance on how to measure and audit that information.

B21. The EFRAG member reported feedback that the information required when applying the preliminary views is similar to value creation and sustainability information and, therefore, could be included in management commentary. The ARD member also said some feedback indicated a preference for disclosing forward-looking information in documents other than financial statements.

B22. The AcSB, AOSSG and EFRAG members said they heard concerns about the auditability of the information. However, the EFRAG member said users EFRAG has consulted said it was important that the information disclosed when applying the preliminary views be audited. The FASB member suggested the IASB communicate with auditors because they might be exposed to additional risk if required to audit information they do not currently audit, for example, information about an entity's market share.

## Appendix C—Feedback from the Capital Markets Advisory Committee (CMAC) meeting in November 2021

### *Background*

C1. The IASB's preliminary view is that it should require entities to provide information about the subsequent performance of business combinations (subsequent performance information) that the entity's chief operating decision maker (CODM) monitors.

C2. However, some respondents to the Discussion Paper said that using an entity's CODM to identify the business combinations for which subsequent performance information should be disclosed could result in users of financial statements (users) not receiving information about all business combinations that matter to users.

C3. The staff asked CMAC members which business combinations they need subsequent performance information about.

### *Importance of subsequent performance information*

C4. Most CMAC members said subsequent performance information is important and that they seldom receive such information. Some of those CMAC members said they need this information for stewardship purposes, for example, helping users hold management to account for acquisition decisions. One CMAC member said requiring entities to disclose subsequent performance information would be a better way to respond to concerns about the impairment test of cash-generating units (for example, concerns about not being effective or timely) than considering changes to the subsequent accounting for goodwill.

### *Business combinations for which subsequent performance information is needed*

C5. Most CMAC members who commented said subsequent performance information is needed for all material acquisitions. Some of those CMAC members said that, in their experience, the information provided by entities for segment reporting (which is obtained using the concept of an entity's CODM) is not useful and does not represent how an entity's management operates the business. Those members are therefore concerned about using the CODM concept in the context of subsequent performance information.

C6. One CMAC member said that ascertaining whether a business combination is material requires a qualitative assessment. The member said that, for example, subsequent performance information about a 'small' acquisition might be material if the acquisition gives the acquirer access to a new market.

C7. One member said it would be reasonable to use the CODM to identify business combinations for which subsequent performance information is required to be disclosed. That CMAC member said it might be difficult for the IASB to specify which business combinations are material and that it would be practical to allow the CODM to exercise judgement.

C8. One member said it would be reasonable to require the CODM to identify metrics that are relevant in assessing whether a business combination is successful.

C9. One member said requiring information for all material business combinations could result in an overload of disclosures and be costly for preparers. That CMAC member suggested the IASB instead require an entity to describe the expected effect on revenue and profit or loss of the segment into which that acquisition is integrated.

C10. Many CMAC members said it would be useful to receive aggregated information about the performance of individually immaterial business combinations that are strategically linked. Those CMAC members suggested considering what information serial acquirers—that is, entities that make a series of linked acquisitions—should be required to disclose.

### *Other comments*

C11. Many CMAC members acknowledged the difficulty of an entity tracking the performance of an acquired business if it is integrated into another business.

C12. One CMAC member suggested providing examples of the types of metrics an entity could be expected to disclose. That member suggested examples of metrics such as organic growth, margins and key ratios that have been affected by the acquisition.

## Appendix D—Feedback from the Global Preparers Forum (GPF) meeting in November 2021

D1. The IASB's preliminary view is that it should require entities to provide information about the subsequent performance of business combinations (subsequent performance information) that the entity's chief operating decision maker (CODM) monitors.

D2. However, some respondents to the Discussion Paper said that using an entity's CODM to identify the business combinations for which subsequent performance information should be disclosed could result in users of financial statements (users) not receiving material information.

D3. The staff asked GPF members which business combinations the CODM in their organisation reviews and whether and how this differs from the business combinations about which the entity provides information applying IFRS 3 *Business Combinations*.

D4. GPF members had different responses:

(a) one member said the CODM reviews only the most significant business combinations. The CODM identifies significant business combinations by considering quantitative and qualitative factors (for example, the strategic rationale for the business combination). That GPF member said using the CODM to identify the business combinations for which subsequent performance information should be disclosed is a sensible approach.

(b) another member said the business combinations monitored by the CODM in their organisation depended on the purpose of the business combination. The GPF member said the CODM might, for example, look at business combinations if they have relevance to the overall business strategy even if they would be immaterial applying IFRS 3.

(c) one member said the CODM monitors the performance of all material business combinations and some that are immaterial.

(d) one member said the CODM does not monitor the performance of any business combination. That GPF member said the performance of business combinations is monitored at a divisional level.

D5. Many GPF members raised concerns about the information an entity would be able to disclose if the acquired business were integrated into another business. GPF members said the performance of a business combination is often monitored as part of the ongoing business assessment rather than on a stand-alone basis, which could mean that:

(a) it would be difficult to assess whether the change in performance of an integrated business (for example a business segment into which an acquired business has been integrated) results from the business combination or from other factors.

(b) information about an entity's targets for a business combination would provide information about the entity's budgets and business plans, which is internal information and inappropriate to disclose in financial statements. One GPF member said the integrated information the CODM reviews that relates to the business combination is at the segment level. Requiring disclosure of integrated information about the entity's targets for a business combination would require the entity to provide information about its internal budgets for the segment. In this GPF member's view, this information is forward-looking and should not be provided in financial statements.

D6. One GPF member said the metrics the CODM reviews for integrated business combinations are different from those businesses monitored on a stand-alone basis. A few GPF members said in an integrated business an entity might track information by line of product or geographical locations rather than information about a stand-alone business.

D7. One GPF member said the IASB should ensure any additional disclosure requirements it proposes align with proposals of the US Financial Accounting Standards Board.