IFRS

STAFF PAPER

July 2022

IASB® meeting

Project	**Goodwill and Impairment**
Paper topic	Further research on disclosures about business combinations

CONTACT(S) Dehao Fang fdehao@ifrs.org

Purpose and Structure

1. In April 2022 the International Accounting Standards Board (IASB) discussed the preliminary views described in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* to improve the information entities disclose about business combinations.

2. This agenda paper includes our additional research and analysis following comments made by IASB members in April 2022. In particular, this paper discusses:

   (a) needs of users of financial statements (users) (paragraphs 10–21); and

   (b) additional analysis on possible ways forward, including:

      (i) requiring information for only a subset of business combinations (paragraphs 22–35);

      (ii) exempting entities from disclosing some information in specific circumstances (paragraphs 36–52); and

      (iii) existing disclosure requirements (paragraphs 53–62).

3. The paper also includes four appendices:

   (a) Appendix A—the preliminary views;

   (b) Appendix B—research on identifying a subset of business combinations;

(c) Appendix C—research on the use of exemptions in IFRS Accounting Standards; and

(d) Appendix D—summary of feedback from joint CMAC GPF meeting in June 2022.

4. As explained in Agenda Paper 18 to this meeting, this paper does not include a staff recommendation and the IASB will not be asked to make any decisions at this meeting. This additional research and analysis intends to help the IASB's future decision on whether to proceed with its preliminary views to add requirements for entities to disclose information about the subsequent performance of business combinations and quantitative information about expected synergies.

Background information

5. The Discussion Paper sets out the IASB's preliminary views on improving the information entities disclose about business combinations, including:

(a) more specific disclosure objectives;

(b) requirements to disclose information about the subsequent performance of a business combination; and

(c) requiring quantitative information about expected synergies from a business combination.

6. Appendix A includes more information on the preliminary views.

7. In April 2022 we presented four potential alternatives to the preliminary views, they were:

(a) requiring information for only a subset of business combinations;

(b) exempting entities from disclosing some information in specific circumstances;

(c) requiring only qualitative information in the year of acquisition rather than quantitative information;

(d) specifying the metrics an entity would disclose.

8. As a result of the IASB's discussion at that meeting we undertook additional research. We:

(a) analysed user feedback to better understand the priority of users' information needs;

(b) reviewed comments on the usefulness of existing disclosure requirements and considered suggestions to improve those requirements;

(c) asked members of the Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) for advice on the way forward at their joint meeting in June 2022; and

(d) undertook additional research on specific aspects of the alternatives described in paragraphs 7(a) and 7(b), including asking Accounting Standards Advisory Forum (ASAF) members for advice at their July 2022 meeting. In particular, we researched and sought advice on:

(i) how to identify a subset of business combinations; and

(ii) how to design an exemption from disclosing specific items of information.

9. Appendix D contains feedback from CMAC and GPF members. While this paper will be discussed by the IASB after the July 2022 ASAF meeting, this paper has been prepared and provided to IASB members before that meeting and accordingly does not include feedback from ASAF members. We will provide a verbal update of ASAF members' feedback at the IASB's July meeting.

Users' needs for better information

10. During the IASB's April 2022 meeting, one IASB member requested further information on the relative importance users place on the information an entity, applying the preliminary views, would disclose:

(a) in the year of acquisition (eg quantitative information about expected synergies and information about management's targets); and

(b) in subsequent years (eg reporting of actual performance for the metrics set out in the year of acquisition).

11. We provide information about:

(a) user feedback (paragraphs 12–17); and

(b) our analysis of this feedback (paragraphs 18–21).

User feedback

12. User feedback during the Post-Implementation Review (PIR) of IFRS 3 *Business Combinations* indicated that entities do not disclose sufficient information about business combinations. In particular, the Report and Feedback Statement on the PIR of IFRS 3 identified the need for better information about the subsequent performance of an acquiree.

13. Agenda Paper 18B to the IASB's November 2015 meeting summarised feedback from users received earlier in this project. Paragraph 7 of that paper notes:

(a) users appear to be particularly interested in assessing whether an acquisition has been successful, identifying what assumptions and projections formed the basis for the valuation (and hence support the goodwill figure) and assessing the accountability of management.

(b) many users said there are limitations to the information provided by entities applying existing requirements for various reasons, including that there is insufficient information to help them understand the subsequent performance of the acquired business and whether main targets/synergies of the acquisition are met, considered key to their analysis.

14. Paragraph 2.62 of the Discussion Paper notes that users said the requirement for an entity to disclose a qualitative description of the factors that make up goodwill, such as expected synergies, often results in entities providing a generic description that is not useful.

15. Agenda Paper 18B to the IASB's April 2021 meeting summarised user feedback on the Discussion Paper. Paragraph 13 of that paper notes all users who commented

agreed with the preliminary view to add additional disclosure objectives to IFRS 3 that would require an entity to disclose information to help users understand:

(a) the benefits that an entity's management expected from an acquisition when agreeing the price to acquire a business; and

(b) the extent to which management's objectives for a business combination are being met.

16. As paragraph 25 of Agenda Paper 18A to the IASB's April 2022 meeting notes, many users said many entities provide objectives and targets for business combinations in investor presentation and calls. Similarly, as paragraph D6 of Appendix D to this paper notes, some CMAC members said some—but not all—entities provide the information they need. Feedback also suggested:

(a) 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) even for entities that provide some information outside financial statements, users said requiring entities to disclose information in financial statements would still be useful because entities disclose information about a business combination's objectives and expected synergies in different documents. These users said 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 after a period of time and requiring that information to be disclosed in financial statements would ensure the information continues to be available.

17. CMAC members expressed mixed views at the joint CMAC and GPF meeting in June 2022 about a disclosure approach that would not require an entity to disclose quantitative information about management's key objectives for a business combination in the year of acquisition but to disclose quantitative information about actual performance in subsequent periods (see paragraphs D17–D19). In addition, as paragraph 57 of Agenda Paper 18B to the IASB's April 2022 meeting notes, when users were asked whether they would support that approach, many said they would

not. In their view, disclosing only actual performance of the business combination in subsequent periods without disclosing acquisition-date assumptions for the business combination in the year of acquisition could limit users' ability to understand the reasons for the purchase price, and to assess the actual performance of the business combination that was achieved. This would restrict users' ability to hold management to account for their investment decisions.

Our analysis

18. In our view, user feedback indicates a need for better information both in the year of acquisition and subsequently. As noted in paragraph 16 and our research on information that entities currently provide (see paragraphs 29–39 of Agenda Paper 18A to the IASB's April 2022 meeting) many entities provide some information that could be considered targets outside financial statements. However, not all entities do, and fewer entities provide follow up information about the achievement of those targets. The most common item of information that entities provide in the year of acquisition was quantitative information about expected synergies.

19. We think that, although there is a need for information identified by users, the evidence about information entities currently provide about expected synergies means the preliminary view to require quantitative information about expected synergies in the year of acquisition could be considered lower priority compared to the package of information about the subsequent performance of business combinations that is less frequently available.

20. The preliminary view on subsequent performance of business combinations (paragraphs A5–A11) includes a requirement to disclose information in the year of acquisition about management's targets. This would provide users with information about the purchase price paid, and, as noted in paragraph 16, would also provide relevant context for information about actual performance that would be disclosed in subsequent years.

21. There is near unanimous feedback from users that information in subsequent years about actual performance is needed and therefore we think this information is of the highest priority to users. There are mixed views as to whether it is possible to interpret

the subsequent performance information without knowing the context that disclosure of the target for a business combination would provide. However, we think on balance information about management's target(s) in the year of acquisition is of equal priority to information about the achievement of those targets in subsequent periods.

Requiring information for only a subset of business combinations

22. In Agenda Paper 18B for the April 2022 IASB meeting, we suggested the IASB could amend its preliminary views to require entities to disclose information required applying the preliminary views only for a subset of business combinations—that agenda paper referred to this alternative as requiring additional disclosures for 'significant' business combinations. As noted in that agenda paper, doing so could be a way to balance users' needs for additional information and preparers' concerns about disclosing that information.

23. We previously referred to 'significant' business combinations. Some IASB members were concerned about using the term 'significant'. In this context:

    (a) we note the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) and IAS 1 *Presentation of Financial Statements* attribute materiality to information rather than to transactions. However, IFRS 3 contains disclosure requirements for 'material' and 'immaterial' business combinations. We used the term 'significant' business combinations only to illustrate that this alternative is about requiring entities to disclose additional information for a subset of 'material' business combinations referred to in IFRS 3.

    (b) we acknowledge the term 'significant' is used in other IFRS Accounting Standards and using that term to identify a subset of business combinations could be confusing. If the IASB were to define a subset of business combinations using a quantitative threshold it is possible a description or definition for the subset would not be required. For example, the IASB could draft a requirement 'for business combinations meeting the criteria in paragraph X, an entity shall disclose…'. If the IASB decides that defining or describing the subset would be necessary or helpful, the IASB could use a different term from 'significant' (for example 'strategically important business combinations').

24. Since the IASB's April 2022 meeting, we performed additional research that could help identify that subset of business combinations. The additional work includes research to:

(a) understand the characteristics of business combinations for which entities should be required to disclose the information (paragraphs 25–31); and

(b) consider whether the IASB could use a factor-based approach to identifying the subset of business combinations (paragraphs 32–35).

Characteristics of business combinations

25. To help the IASB understand the characteristics of business combinations for which to require additional disclosures, we:

(a) had discussions with preparers that expressed concerns about commercial sensitivity but nonetheless disclosed information for some business combinations (paragraphs 26–27); and

(b) performed some quantitative research into the frequency of business combinations that met specific thresholds (paragraphs 28–31).

Additional outreach with preparers

26. During previous outreach activities, we developed staff examples illustrating the application of the preliminary views and tested them with stakeholders. Some preparers who said information illustrated in the staff examples was commercially sensitive nonetheless provided similar information outside financial statements for some business combinations. These preparers said they typically provide information for 'significant' business combinations because the market would penalise them for failing to do so (see paragraphs 74 of Agenda Paper 18A to the IASB's April 2022 meeting). We followed up with these preparers to better understand the characteristics of the business combinations that warranted providing the additional information.

27. The preparers we spoke to identified different reasons for doing so:

    (a) One preparer said the business combination they provided information for was one for which the entity decided users need additional information. This is because the business combination was quantitatively significant. The preparer said the purchase price:

        (i) included a large premium over the acquiree's market price.

        (ii) represented about a fifth of the entity's market capitalisation. The entity said they had not made such an acquisition in a long time.

    (b) Local regulations may require an entity to provide the information. One preparer said local listing rules require an entity to provide information that would help users evaluate the basis of an entity's valuation in a tender offer. That preparer concluded information about expected revenue and profit of the acquiree met that requirement and therefore provided that information. The preparer said the information was not required to be audited.

    (c) The decision to provide information was made by the department within the entity undertaking the business combination rather than at a group level. Different departments may have different priorities and risk appetites for providing information about transactions.

Quantitative research on possible thresholds

28. Paragraph 43 of Agenda Paper 18B to the IASB's April 2022 meeting describes two ways to describe a subset of business combinations:

    (a) a quantitative threshold—for example requiring information to be disclosed for a business combination in which the acquiree represents more than 5% of the reporting entity's revenue, profit, total assets or net assets. Setting a quantitative threshold has precedence—for example, paragraph 13 of IFRS 8 *Operating Segments* requires an entity to disclose information about operating segments meeting specific quantitative thresholds. In setting a quantitative threshold, the IASB could consider similar thresholds set by regulators who require entities to disclose specific information about business combinations that meet particular thresholds.

(b) a qualitative threshold—for example requiring information to be disclosed for business combinations that comprise a significant portion of the entity's reportable segments and business combinations that are themselves separate reportable segments. Using a qualitative threshold has precedent in, for example, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* which uses a qualitative threshold to identify discontinued operations.

29. To assess how many business combinations might be captured by different thresholds, we reviewed business combinations in Europe, Asia-Oceania and the Americas (we were unable to obtain sufficient information to be able to perform this analysis for African jurisdictions). In each region we:

(a) compared the number of discontinued operations reported by entities in those jurisdictions to the total population of disposals by entities in those jurisdictions (as an example of the application of a qualitative threshold in IFRS Accounting Standards);

(b) compared the number of business combinations in which an acquiree represented more than specific quantitative thresholds of any one of four criteria to the total population of business combinations in those jurisdictions. The criteria we used were revenue, profit, total assets and net assets of the acquired and acquiring entities prior to the acquisition. We used thresholds of 5% and 25%.

30. Appendix B includes more information about our process and notes some of the limitations of our research.

31. The following table summarises the proportion of the population of business combinations that would be captured by the thresholds we tested:

Region	Discontinued Operations	Revenue, profit, total assets or net assets is over 5%	Revenue, profit, total assets or net assets is over 25%
Europe	26%	25%	11%
Asia-Oceania	74%[1]	16%	6%
Americas	16%	14%	5%
Average	39%	18%	7%

A factor-based approach to identifying the subset

32. As paragraph 28 notes, in April 2022 we outlined two possible ways the IASB could identify a subset of business combinations—quantitative or qualitative thresholds. At the April IASB meeting one IASB member suggested a third possibility, a factor-based approach.

33. We think this is a possible approach. It has been used previously—for example IAS 21 *The Effects of Changes in Foreign Exchange Rates* uses this approach to help an entity identify its functional currency. Paragraph 8 of IAS 21 defines the functional currency, and paragraphs 9–11 of IAS 21 lists factors to consider.

34. We think a factor-based threshold could use an open list (that is a description of the subset with a non-exhaustive list of factors to consider) or a closed list (that is an exhaustive list of factors an entity would be required to consider). If the IASB were to use an open list of factors, it would be necessary to describe or define that subset (see paragraph 23(b)). Describing or defining that subset could be challenging but doing so would help effectively communicate the type of business combinations for which entities should disclose additional information.

[1] This number is an outlier. The large percentage appears to be driven by transaction information for entities listed on the Hang Seng index in Hong Kong. It is unclear why the figure for that index is higher than in other jurisdictions.

35. After considering the research in paragraphs 25–31, we identified the following list of potential factors that could help identify a subset of business combinations:

    (a) the business combination will result in the entity operating in a new geographic location or a separate major line of business;

    (b) the business combination would require approval from those charged with governance, or from shareholders in an annual general meeting;

    (c) local regulations would require the entity:

        (i) to obtain approval by the local regulator for the business combination; or

        (ii) to provide information about the business combination to its shareholders (for example, class 1 transactions in the United Kingdom).

    (d) the performance of the acquired business will be disclosed as a separate reportable segment;

    (e) the subsequent performance of the business combination will be reviewed by the entity's Chief Operating Decision Maker (CODM); and

    (f) the entity has provided information similar to that which would be required by the IASB's preliminary views for that business combination outside its financial statements.

Disclosure exemption in specific circumstances

36. In April 2022 we described an alternative to the preliminary views—a 'comply or explain' model. Reflecting on comments from IASB members in April 2022 we renamed this alternative an 'exemption in specific circumstances'. This wording better reflects our intention—we intended this alternative to be an exemption in circumstances specified by the IASB rather than an option to not comply that would be available in all circumstances, as may be implied by the phrase 'comply or explain'.

37. Since the IASB's April 2022 meeting, we:

(a) performed additional research into exemptions (paragraphs 38–46); and

(b) considered what circumstances an exemption should apply to (paragraphs 47–52).

Research

38. We:

(a) assessed how frequently existing disclosure exemptions in IFRS Accounting Standards are applied (paragraphs 39–41);

(b) researched exemptions in regulatory reporting to understand how they may be applied (paragraphs 42–45); and

(c) asked CMAC and GPF members about including an exemption from disclosing information (paragraph 46).

Disclosure exemptions in IFRS Accounting Standards

39. We researched how frequently entities apply disclosure exemptions in IFRS Accounting Standards. In particular, we reviewed the application of the exemptions in:

(a) paragraph B64(q) of IFRS 3—available when disclosing information about the contribution of the acquired business as required by that subparagraph is 'impracticable' (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). This is an example of an exemption that applies when information is unavailable to the entity.

(b) paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—available when disclosing information required by particular paragraphs of IAS 37 'can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset'. This is an example of an exemption that applies when information is available but disclosing it would have negative economic effects.

40. Appendix C to this paper provides a detailed description of our research.

41. Despite limitations to the research as noted in Appendix C, we observed that:

(a) neither of the exemptions are widely used in practice. This observation aligns with anecdotal evidence obtained from ASAF members in previous meetings suggesting that the exemption in IAS 37 is not widely applied in practice.

(b) the exemption in IFRS 3 is used less frequently than the exemption in IAS 37.

Exemptions in regulatory reporting

42. Regulators sometimes exempt entities from providing some information that would otherwise be required by local regulatory reporting if prescribed conditions are met. We think such exemptions could offer insights into how to draft an exemption.

43. We identified two examples:

(a) the Australian Corporations Act 2001 allows an entity to not provide information that is likely to result in 'unreasonable prejudice' to the entity. The Australian Securities & Investments Commission (ASIC) published Regulatory Guide RG 247, which explains how that exemption should be applied (ASIC guidance).

(b) Regulation (EU) No 575/2013 allows entities to not provide information that is immaterial, or contains proprietary or confidential information. The European Banking Authority (EBA) published Guideline EBA/GL/2014/14 explaining how that exemption should be applied (EBA guidance).

44. We think there are some features of those requirements that the IASB could consider should it decide to introduce an exemption:

(a) Considering the likelihood of negative economic effect—both examples include a requirement for entities to consider the likelihood of negative consequences when deciding whether the exemption may be applied. The ASIC guidance states that for an entity to apply the exemption, the unreasonable prejudice must be 'more probable than not'. The EBA guidance states that a mere possibility of negative consequence is not sufficient for the use of the exemption. It states that specific reasoning should be available and should be based on an analysis of the incidence of disclosure of proprietary information.

(b) Circumstances in which negative consequences do not exist—the ASIC guidance describes circumstances in which negative consequences are assumed not to exist. For example, the ASIC guidance says disclosure of information that is already contained in continuous disclosure notices, investor presentations, briefings to analysts or other publicly available documents is unlikely to give rise to unreasonable prejudice to the entity.

(c) Information to which the exemption does not apply—in some cases an entity is not permitted to use the exemption to avoid disclosing information. For example, Article 432 of Regulation (EU) No 575/2013 states that an entity is not permitted to omit specific information relating to risk management objectives and policies, as well as a bank's own funds and remuneration policy.

45. We are unaware of comprehensive research on the effectiveness of exemptions such as those described in paragraph 43. However, anecdotal evidence suggests the ASIC guidance and the EBA guidance are effective at ensuring the exemptions are applied only in appropriate circumstances.

Feedback from CMAC and GPF members

46. As noted in Appendix D, CMAC and GPF members discussed the application of an exemption at their joint meeting in June 2022. Despite some concern from users, there was broad agreement between CMAC and GPF members that:

(a) if the IASB were to introduce an exemption from disclosing specific information, the exemption should apply to concerns about commercial sensitivity and potential litigation risk resulting from disclosing that information in financial statements.

(b) the exemption should apply to information about management's targets. Entities should not be exempted from disclosing qualitative information about the strategic rationale and objectives for the business combination.

Circumstances to which a possible exemption could apply

47. In addition to considering the feedback and ideas for drafting an exemption noted in paragraphs 38–46, the IASB should also consider what practical concerns any exemption would apply to.

48. As noted in paragraph 39, there are two circumstances in which an exemption might be provided:

    (a) when information is unavailable; and

    (b) when information is available but disclosing the information could lead to negative economic effects.

49. We think concerns about integration would fit into the first of these types of circumstances. However, we think it would be unnecessary to provide an exemption in this circumstance because:

    (a) the preliminary views about subsequent performance information (see paragraphs A5–A11) follow a management approach. This would require entities to disclose information used by management internally to monitor the performance of a business combination—that is, the information would already be available and would not have to be produced solely for purposes of financial reporting.

    (b) the preliminary view about quantitative information about expected synergies (see paragraphs A12–A14) would require entities to disclose information about expected synergies at the time of the acquisition—the acquired business would not have been integrated at that point in time and therefore we think integration concerns are not relevant to that preliminary view.

50. An exemption from disclosing information to address concerns about negative economic effects (eg commercial sensitivity or litigation risk) has precedence in IAS 37. However, when developing IFRS 8, the IASB decided not to include a similar exemption. Paragraph BC44 of IFRS 8 says:

> The Board concluded that a 'competitive harm' exemption would be inappropriate because it would provide a means for broad non-compliance with the IFRS. The Board noted that entities

would be unlikely to suffer competitive harm from the required disclosures since most competitors have sources of detailed information about an entity other than its financial statements.

51. We think if the IASB were to introduce an exemption from disclosing information to address concerns about negative economic effects (eg commercial sensitivity or litigation risk) the IASB would need to justify why that exemption would be more similar to the exemption in IAS 37 than the request for an exemption in IFRS 8 that the IASB rejected.

52. We think it could be possible to conclude that an exemption would more closely resemble the exemption in IAS 37 than the exemption considered when developing IFRS 8. This is because information about targets for a business combination is linked to a specific transaction and feedback suggests disclosing that information could have a negative effect on that transaction. The exemption in IAS 37 is also linked to a specific transaction and allows an entity to not disclose information about the transaction that could negatively affect that transaction. In contrast, the exemption considered when developing IFRS 8 was broad—it was not linked to a specific transaction and would have exempted an entity from disclosing any of the information required by IFRS 8.

Existing disclosure requirements for business combinations

53. During the April 2022 IASB meeting, a few IASB members asked about the usefulness of existing disclosure requirements. This included whether:

(a) users find existing disclosures requirements in IFRS 3 and IAS 36 *Impairment of Assets* useful (paragraphs 54–55);

(b) existing disclosure requirements can be improved to provide better information about the subsequent performance of business combinations (paragraphs 56–61); and

(c) any existing disclosure requirements in IFRS 3 can be removed to reduce the burden of disclosure for preparers (paragraph 62).

Usefulness of existing disclosure requirements

54. In October 2018, the IASB tentatively decided not to perform a comprehensive review of the disclosure requirements in IFRS 3 and IAS 36 *Impairment of Assets*. Instead, the IASB decided to make some targeted improvements to IFRS 3's disclosure requirements. As a result, we did not ask specific questions about the usefulness of existing disclosure requirements about business combinations and the impairment test of cash-generating units (CGUs) during outreach.

55. However, user feedback provides some insights on existing disclosure requirements that users find useful:

    (a) users consistently said the information required by paragraph B64(q) of IFRS 3 about the contribution of the acquired business is useful. That information helps users understand the effect of a business combination on the performance of the entity in the year of acquisition and provides the basis for trend information that can be compared to the performance of the business in subsequent years.

    (b) in the November 2018 CMAC meeting, a few CMAC members said information about segment reporting is insufficient to address users' needs for information about the subsequent performance of business combinations (paragraph 20 of the November 2018 CMAC meeting notes).

    (c) users said they find information about the assumptions used in the impairment test of CGUs (as required by paragraphs 134–135 of IAS 36) useful. For example, most users disagreed with removing the requirement to perform a quantitative impairment test annually because they would lose useful information about assumptions (such as discount rates) entities used in their impairment tests (see Agenda Paper 18B to the IASB's April 2021 meeting). Some users said information about changes in the assumptions year on year can help them assess the subsequent performance of business combinations. For example, if the growth rates used in the impairment test are declining over time that might indicate the acquired business is not performing as well as expected.

Improvements to existing disclosure requirements

56. The IASB has previously considered whether it could improve existing disclosure requirements to help provide users with better information about business combinations and their subsequent performance. For example, Agenda Paper 18B to the IASB's March 2016 meeting discussed requiring entities to disclose:

    (a) why management paid a premium, the key performance targets and a basic comparison with actual performance;

    (b) a breakdown of goodwill by business combinations;

    (c) information about recoverability of goodwill;

    (d) the payback period of the investment; and

    (e) better information from the application of existing disclosures in IAS 36.

57. The IASB investigated some of those ideas further, including asking ASAF in July 2018 for feedback on those ideas. The IASB also investigated some other ideas, for example requiring an entity to disclose the headroom on an annual basis in a CGU (or group of CGUs) to which goodwill has been allocated for impairment testing. However, after considering its research and feedback, the IASB decided to develop only the idea in paragraph 56(a) into a preliminary view in the Discussion Paper (see paragraphs A5–A11).

58. Feedback from the IASB's investigations generally did not support the other ideas. For example, most ASAF members in July 2018 generally did not support:

    (a) disclosing a breakdown of goodwill by past acquisition, expressing concerns on the ability of entities to track goodwill by past acquisition if the acquired businesses have been integrated with existing businesses, the costs involved and the usefulness of the information provided.

    (b) disclosing headroom each year, mainly because it might mean disclosing the value of a segment or whole entity and they thought this information would be commercially sensitive.

59. Some CMAC members in March 2018 supported the idea of disclosing headroom in CGUs. However, those members said entities are likely to apply a disclosure-only

requirement less rigorously than if the headroom approach was used for impairment testing purposes (paragraph 29 of the meeting summary of the March 2018 CMAC meeting).

60. Some comments from stakeholders could support revisiting some of the ideas previously discussed. For example:

    (a) one user representative group suggested improving existing disclosure requirements about goodwill. It suggested requiring entities to disclose the breakdown of goodwill by acquisition, the allocation of goodwill to the entity's different reportable segments as well as the age of goodwill.

    (b) as noted in paragraph 61 of Agenda Paper 18B to the IASB's May 2021 meeting, some respondents suggested, in the context of improving the effectiveness of the impairment test, improving the disclosure requirements associated with the impairment test.

61. However, we note that the drawbacks of those approaches remain. In addition, the information described in paragraph 56(b)–56(e) focuses on information about goodwill. As noted at the CMAC and GPF joint meeting in June 2022, users say they need better information about the economics of a business combination rather than additional information about goodwill (see paragraph D5 of Appendix D to this paper).

Removing existing disclosure requirements

62. We reviewed feedback on removing some of the disclosure requirements in IFRS 3 (see paragraphs 6–8 of Agenda Paper 18D to the IASB's April 2021 meeting). While we plan to bring a full analysis of this topic to a future meeting, our initial analysis is that the suggestions are unlikely to result in (a) significant cost reductions for preparers; or (b) loss of material information for users. For example, many of the suggestions are to remove requirements in IFRS 3 to disclose information that is already required applying other IFRS Accounting Standards.

Question for the Board
Does the Board have any comments or questions on the research discussed in this paper?

Appendix A—The preliminary views

A1. During the post-implementation review of IFRS 3, stakeholders said entities often apply the disclosure requirements of IFRS 3 mechanically as a checklist. The resulting disclosures can be 'boilerplate' and despite being extensive, provide insufficient information. Users said they need better information to help them understand a business combination and its subsequent performance. Information about management's objectives for a business combination and whether those objectives are being met would be useful and would help users assess:

(a) management's ability to realise expected benefits from a business combination.

(b) whether management paid a reasonable price for the acquired business. Such information would allow users to assess performance and more effectively hold management to account for its decision to acquire a business.

A2. In response, the IASB considered possible improvements to the disclosure requirements in IFRS 3. The Discussion Paper set out the IASB's preliminary views on this matter, including:

(a) more specific disclosure objectives (paragraphs A3–A4);

(b) requirements to disclose information about the subsequent performance of a business combination (paragraphs A5–A11); and

(c) requiring additional quantitative information about expected synergies from a business combination (paragraphs A12–A14).

Disclosure objectives

A3. Paragraphs 59 and 61 of IFRS 3 contain the disclosure objectives for IFRS 3:

> 59 The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:
>
> (a) during the current reporting period; or

> (b) after the end of the reporting period but before the financial statements are authorised for issue.
>
> ...
>
> 61 The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.

A4. For reasons noted in paragraph A1, the IASB's preliminary view is to add disclosure objectives that would require an entity to provide information to help users understand:

(a) the benefits that an entity’s management expected from a business combination when agreeing the price to acquire a business; and

(b) the extent to which a business combination is meeting management’s objectives.

Subsequent performance of business combinations

A5. Paragraph B64(d) of IFRS 3 requires an entity to disclose, among other things, the primary reason for a business combination. Paragraph 2.9 of the Discussion Paper notes that this requirement may result in entities providing some information about management’s objectives, but that information is unlikely to be specific enough to help users assess the subsequent performance of a business combination.

A6. For this reason, the IASB’s preliminary view is that it should:

(a) replace that requirement with a requirement to disclose:

(i) the strategic rationale for a business combination; and

(ii) management’s objectives for the business combination.

(b) add a requirement to disclose:

(i) in the year in which a business combination occurs, the metrics management will use to monitor whether the business combination’s objectives are being met and the targets associated with those metrics;[2] and

(ii) in subsequent periods, the extent to which management's objectives for that business combination are being met using those metrics for as long as management monitors the business combination against those objectives.[3]

A7. The phrases used in the Discussion Paper were described as:

(a) Strategic rationale—a description of the strategic rationale is likely to be broad (for example, 'to expand the company's geographical presence in Region Z by acquiring Company B, which trades in Territory Y in Region Z') and this would link to the company's overall business strategy (paragraph 2.11(a) of the Discussion Paper).

(b) Objectives—management's objectives would be more specific financial or non-financial aims for a business combination (for example, 'to achieve additional sales of the company's own Product W in new Territory Y using the acquired sales channels of Company B') (paragraph 2.11(b) of the Discussion Paper). Management's objectives are the objectives that management considers must be achieved for the acquisition to be a success and would form the basis of the information to help investors assess the subsequent performance of the acquisition (paragraph 2.12 of the Discussion Paper).

(c) Metrics—how targets are to be measured. The metrics are the metrics management uses to monitor a business combination's performance and subsequent progress. These metrics could be financial—for example, amounts of synergies, profit measures, returns on capital—or non-financial—for

[2] The preliminary view (see paragraph 2.25 of the Discussion Paper) states that if the acquired business is integrated with the acquirer's business, information about the subsequent performance of the acquisition used by management may be based on the combined business.

[3] The preliminary view (see paragraph 2.45 of the Discussion Paper) also included other requirements that would apply if management does not monitor whether its objectives for the business combination are being met, if it stops monitoring whether its objectives are being met or if it changes the metrics it uses to monitor whether its objectives are being met.

example, market share, retention of staff, product launches—or both (paragraphs 2.11(b), 2.16(b) and 2.16(d) of the Discussion Paper).

(d) Targets—the targets are how management will determine whether the objectives of a business combination have been met. An example of a target and metric is ‘additional revenue of CU100 million of Product W in Territory Y in 202X (paragraph 2.11(b) of the Discussion Paper).

A8. As paragraph 2.30 of the Discussion Paper explains, in the IASB’s view, information about the objectives and related targets for a business combination reflects information at the time of the business combination and is not a forecast of the expected outcome at the time the entity prepares its financial statements.

A9. The IASB’s preliminary view is that if an entity’s management continues to monitor whether its objectives are being met an entity should be required to disclose information about the subsequent performance for as long as the information remains necessary for users to assess whether the original objectives of the business combination are being met (paragraph 2.44 of the Discussion Paper).

A10. Paragraph 2.12 of the Discussion Paper notes that information about objectives, targets and metrics would form the basis of the information to help users assess the subsequent performance of the acquisition and also help users understand why the entity bought that business and what assets, synergies and other benefits it paid for. Users would be able to use that information to assess whether the price for the acquired business appears reasonable.

A11. In our view (see Agenda Paper 18A to the IASB’s October 2021 meeting), the information described as targets in the Discussion Paper are the key assumptions that underpin the entity’s objective for the business combination. That information helps explain the assumptions an entity made in measuring the assets and liabilities recognised in a business combination, including goodwill.

Expected synergies

A12. Paragraph B64(e) of IFRS 3 requires an entity to disclose, in the year in which a business combination occurs, a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from the business combination. Users said this requirement often results in entities providing an unhelpful generic description. Users said the information they want is not about goodwill itself, but information that helps them better understand why an entity paid the price it did for the acquired business.

A13. For this reason, the IASB's preliminary view is that it should require an entity to disclose, in the year in which a business combination occurs:

(a) a description of synergies expected from combining the operations of the acquired business with the entity's business;

(b) when the synergies are expected to be realised;

(c) the estimated amount or range of amounts of those synergies; and

(d) the estimated cost or range of costs to achieve those synergies.

A14. In response to concerns that synergies are often difficult to quantify, paragraph 2.66 of the Discussion Paper notes the IASB's expectation that management would have estimated expected synergies in agreeing the price for a business. An entity would not be required to provide a single point estimate but could provide a range.

Appendix B—Quantitative research on possible thresholds

Methodology

B1. As paragraph 29 notes, we performed some research to assess how many business combinations might be captured using different thresholds. In particular, we looked at the number of discontinued operations in practice as an example of a qualitative threshold and performed some analysis on various quantitative thresholds.

B2. We used information for entities included in the following indices:

(a) Europe:

(i) FTSE 100 Index (UK);

(ii) Euronext 100 Index (France, Netherlands, Norway, Ireland, Portugal);

(iii) Paris CAC 40 Index (France); and

(iv) Germany DAX Index (Performance) (Germany).

(b) Asia Oceania

(i) Hang Seng (Hong Kong);

(ii) Nifty 50 (India); and

(iii) ASX 200 (Australia).

(c) Americas:

(i) TSX 60 (Toronto);

(ii) Brazil 50 (Brazil); and

(iii) S&P Merval (Argentina).

Discontinued Operations

B3. We determined the ratio of discontinued operations by:

(a) obtaining from CapitalIQ[4] a list of all entities with earnings or losses from discontinued operations in 2020;

(b) reviewing the financial statements of each of those entities to determine the total number of discontinued operations; and

(c) obtaining from CapitalIQ a list of all sales transactions for 2020.

B4. The ratio is calculated as the total number of discontinued operations over the total number of sales transactions in 2020.

Quantitative threshold

B5. We assessed the frequency of business combinations in which an acquiree represented more than specific quantitative thresholds of any one of four criteria to the total population of business combinations in those jurisdictions. The criteria we used were revenue, profit, total assets and net assets of the acquired and acquiring entities prior to the acquisition. We used thresholds of 5% and 25%.

B6. We used information obtained from CapitalIQ. In particular, we obtained a list of all business combinations by entities in the indices in paragraph B2 for 2020 and assessed how many acquisitions met the 5% or 25% threshold by reviewing the entity’s financial statements.

B7. We calculated the ratios in the table in paragraph 31 as the number of transactions meeting the 5% or 25% threshold divided by the total number of transactions in the 2020 calendar year.

Research limitations

B8. Our research has the following limitations:

[4] Capital IQ is a financial intelligence database from Standard & Poor's. The database provides financial statement data for both public and private companies globally.

(a) the total number of business combinations we obtained might not include all material transactions (eg we are aware of an instance in which an entity disclosed information about a business combination in financial statements but this business combination was not in the list of business combinations we obtained). Equally we are aware the total number of business combinations contains transactions we think entities have assessed as immaterial because the entity did not disclose information in financial statements for that business combination. Accordingly, the tables in paragraph 31 and below represent approximate percentages and might not represent the percentage of only 'material' business combinations.

(b) some business combinations we reviewed had incomplete data (eg no purchase price). The table below shows the updated results of our analysis if we exclude business combinations with incomplete data:

Region	**25% threshold as a percentage of transaction in population**	**5% threshold as a percentage of transaction in population**
Europe	34%	80%
Asia Oceania	33%	90%
Americas	21%	61%

Appendix C—Research on frequency of applying disclosure exemptions in IFRS Accounting Standards

Methodology

C1. As paragraph 39 notes, we reviewed financial statements to understand the extent of use of exemptions in paragraph B64(q) of IFRS 3 and paragraph 92 of IAS 37.

C2. We conducted our search using the financial statements search engine AlphaSense, which contains financial statements for approximately 37,000 entities around the world. We searched financial statements published in the calendar year 2021. Our search was limited to financial statements published in English.

C3. For each exemption, we searched for some mandatory and optional keywords (listed below) that would suggest an entity has used the exemptions. We reviewed the results and manually adjusted for any entity that was in the list but did not use the exemption (eg in some cases an entity noted the existence of an exemption in its accounting policy note but did not say that it used the exemption).

C4. The keywords we used were:

Paragraph B64(q) of IFRS 3	
Mandatory keywords	*Optional keywords*
" impracticable" or " impracticability"	"business combination", "business combinations", "acquisition", "acquired business", "acquiree", "proforma", "pro-forma", "pro forma", "revenue", "profit", "contribution", "contributions", "profits", "revenues", "acquirees", "acquired businesses" or "acquisitions"

Paragraph 92 of IAS 37	
Mandatory keywords	*Optional keywords*
" prejudice" or "prejudicial"	"legal", "proceeding", "proceedings", "dispute", "disputes", "litigation", "litigate", "court" or "courts"

C5. Due to the large number of hits for the IAS 37 exemption, we tested a random sample of 10% of the hits and then extrapolated the results to the entire population. For the IFRS 3 exemption, we reviewed all the hits. We found approximately 110 entities applying the exemption in IAS 37 and 37 entities applying the exemption in IFRS 3.

C6. We acknowledge that entities applying the exemptions might not have used the key words we searched for and therefore, the number of entities applying each of these exemptions could be higher.

Appendix D—Summary of feedback received from joint CMAC GPF meeting in June 2022

D1. The following meeting notes are in draft form and might not reflect the final meeting notes for the CMAC and GPF joint meeting in June 2022.

D2. The session on Goodwill and Impairment at the joint meeting sought CMAC and GPF members' views on the best way forward for the IASB in improving disclosures about business combinations while balancing user needs and preparer concerns.

D3. In particular, CMAC and GPF members discussed the preliminary views the IASB expressed in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*. The preliminary views are to develop proposals amending IFRS 3 *Business Combinations* to add:

(a) additional disclosure objectives;

(b) requirements to disclose information about the subsequent performance of business combinations; and

(c) a requirement for an entity to disclose quantitative information about synergies expected from a business combination.

D4. CMAC and GPF members discussed:

(a) feedback on the preliminary views (paragraphs D5–D7);

(b) possible ways forward (paragraphs D8–D23); and

(c) other matter (paragraph D24).

Feedback on the preliminary views

D5. CMAC members confirmed the need for better information about business combinations. In particular, some CMAC members said they need information about the economics of the business combination rather than additional information about goodwill.

D6. Some CMAC members said that some entities do disclose the information they need—but not all entities do. Therefore, the preliminary views would improve the information these users receive. Over time, this enhanced information could improve users' capital allocations.

D7. GPF members reiterated practical concerns about the IASB's preliminary views. In particular, some GPF members said the information an entity would disclose by applying the preliminary views could:

(a) be commercially sensitive, difficult to disclose if an entity integrates the acquired business, or be difficult to audit.

(b) result in additional litigation risk if disclosed in financial statements rather than in management commentary. This risk could arise in jurisdictions that provide an entity legal protection from litigation for information disclosed in management commentary, but not for information disclosed in financial statements.

Possible ways forward

D8. CMAC and GPF members provided feedback on different ways forward:

(a) requiring information to be disclosed for only a subset of business combinations (paragraphs D9–D13);

(b) exempting entities from disclosing particular information in specific circumstances (paragraphs D14–D16);

(c) requiring only qualitative information in the year of acquisition (paragraphs D17–D19);

(d) specifying the metrics an entity would disclose (paragraphs D20–D21); and

(e) other suggestions (paragraphs D22–D23).

Requiring information to be disclosed for only a subset of business combinations

D9. CMAC and GPF members expressed mixed views on whether the IASB should require entities to disclose information for only a subset of business combinations.

D10. Many CMAC and GPF members said that the information described in paragraph D3 should be required for all material business combinations.

D11. Some of these members also suggested clarifying that any requirement to disclose quantitative information about expected synergies would apply only if those expected synergies are material.

D12. However, many CMAC and GPF members said requiring information for only a subset of business combinations could represent a good compromise between users and preparers. Some members said the IASB should identify the relevant subset of business combinations—considering both quantitative and qualitative factors.

D13. Some CMAC members also suggested requiring entities to disclose information in aggregate for business combinations that are individually immaterial but are acquired as part of a series of linked acquisitions.

Exempting entities from disclosing particular information in specific circumstances

D14. Some CMAC members had reservations about entities potentially overusing an exemption. However, most CMAC and GPF members agreed there could be circumstances in which an entity should be exempt from disclosing the information that would be required by applying the preliminary views. CMAC and GPF members identified two circumstances in which it may be appropriate to provide an exemption:

(a) when the information is commercially sensitive; and

(b) when disclosing the information in financial statements would provide less protection from litigation risk than disclosing that information in management commentary.

D15. Some CMAC and GPF members agreed that any exemption should be available only for particular types of information. These members agreed that an entity should:

(a) be able to apply any exemption only to information about management's targets for the business combination; and

(b) be required to disclose qualitative information about its strategic rationale and objectives for all business combinations.

D16. Some CMAC and GPF members said that when an entity uses an exemption, it should be required to disclose other information. A few CMAC members said that although the information required by applying the preliminary view is the information users need, if the entity were to be exempted from disclosing some of that information, requiring an entity to disclose why it did not disclose that required information would be useful.

Requiring only qualitative information in the year of acquisition

D17. CMAC and GPF members expressed mixed views on whether entities should be required to disclose only qualitative information in the year of acquisition, with quantitative information only being required in subsequent years.

D18. Some members agreed that requiring disclosure of only qualitative information in the year of acquisition could be a useful alternative because it would avoid an entity being required to disclose information about management's targets for the acquisition.

D19. However, other members disagreed. They said:

(a) information about actual performance in subsequent years could be difficult to understand without the context of management's targets.

(b) quantitative information is needed to support qualitative information about the entity's objective.

(c) not requiring quantitative information in the year of acquisition would not resolve concerns about disclosing information when an entity integrates an acquired business.

Specifying the metrics an entity would disclose

D20. CMAC and GPF members generally agreed that the IASB should not specify metrics that entities would be required to disclose for all business combinations.

D21. These CMAC and GPF members said entities acquire businesses to meet various objectives and may integrate acquired businesses into their business in various ways. Therefore, management should determine the metrics that best reflect the objective of the business combination.

Other suggestions

D22. A few CMAC and GPF members suggested improving the disclosure requirements for business combinations in IFRS 3. For example, one CMAC member said more detailed information about the contribution of the acquired business (often called pro forma information) would help clarify a business combination's effect on an entity.

D23. A few CMAC members said that they could accept quantitative information about expected synergies as a total amount rather than aggregated by nature.

Other matter

D24. A few GPF members said the information that an entity would be required to disclose by applying the preliminary views (see paragraph D3) should be disclosed in management commentary rather than in financial statements.