IASB® meeting

Date	**February 2023**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Other aspects of the management approach**
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Purpose and structure

1. This paper includes our analysis of, and recommendations on:
   (a) Aspects of the management approach, including:
      (i) How long information should be required for (paragraphs 2–27); and
      (ii) Changing metrics (paragraphs 28–41); and
   (b) Other aspects of proposed subsequent performance information disclosure, including:
      (i) Use of ranges (paragraphs 43–46); and
      (ii) Key objectives (paragraphs 47–50).

Aspects of the management approach

How long information should be required for

The preliminary view

2. Paragraph 2.44 of the Discussion Paper explains the IASB's preliminary view. It stated:

(a) if an entity's chief operating decision maker (CODM) continues to monitor whether the objectives of a business combination are being met, the entity should disclose information about the subsequent performance of that business combination for as long as the information remains necessary for users of financial statements (users) to assess whether the original objectives of a business combination are being met (the core time period); and

(b) if management of an entity:

    (i) does not monitor whether its objectives for a business combination are being met, the entity should disclose that fact and the reasons why it does not do so; and

    (ii) stop monitoring a business combination before the end of the second full year after the year in which the business combination occurs, the entity should disclose that fact and the reasons why it stopped monitoring the business combination (the overlay).

Feedback

3. Feedback to the preliminary view covered:

(a) The core time period (paragraphs 4–9); and

(b) The overlay (paragraphs 10–12).

The core time period

4. Some respondents agreed with the core time period. However, a few respondents suggested that an entity should be required to disclose the information that would be required by the IASB for a specified time period. Suggestions by these respondents for the specified time period included:

(a) a fixed time period, such as two or five years.

(b) the period for which synergies arising from the business combination are expected to be realised or the period until integration of the business combination is complete.

5. Some respondents said the core time period would be too short for some business combinations because the CODM is likely to monitor subsequent performance of a business combination against initial management's objectives and targets for only a short period to ensure that integration is happening successfully. However, the success or failure of some business combinations might not be apparent for many years (one fieldwork participant suggested the outcome of a business combination might not be apparent for up to 20 years after the business combination took place).

6. Those respondents said requiring entities to disclose information only in the first few years after a business combination might encourage short-term behaviours that do not add value in the longer term.

7. Some respondents said the CODM reviews information about the performance of a business combination for between two and five years.

8. However, some other respondents said the CODM reviews the performance of a business combination against the business plan developed during the acquisition process for only up to one year after the business combination. After that, the business combination is monitored as part of the entity's annual budgeting process and therefore the CODM reviews the performance of the business as a whole (including the acquired business) against an updated business plan instead of the assumptions made at the time of the business combination.

9. Some fieldwork participants said information is sometimes reported to the CODM as part of a post-acquisition review. This post-acquisition review might take place one to two years after a business combination. The entity reviews assumptions made in the business plan prepared as part of the business combination and compares those assumptions against actual outcomes. The main purpose of this review is to identify learnings from the acquisition process that can be applied to future business combinations.

The overlay

10. Most respondents who commented agreed with the IASB's preliminary view to require an entity to disclose if the entity's management (CODM) has stopped monitoring a business combination.

11. However, a few respondents said that management might still monitor the performance of the acquired business on an integrated basis as part of a larger business or against the entity's updated annual budget rather than its acquisition-date business plan (see paragraph 8). In their view, it might be inappropriate to state that management is no longer monitoring the business combination just because management performs its role differently from what the IASB expected. Those respondents were concerned that this statement would imply wrongly that the entity lacks internal controls.

12. Some respondents agreed with the time period for the overlay. However, a few other respondents said the time period is:

    (a) arbitrary and the IASB should explain why it selected this time frame.

    (b) too long—a few preparers said their management monitor annual budgets and so the CODM will stop comparing performance against initial objectives and targets within one year of the business combination.

    (c) too short—respondents suggested time periods of up to five full years after the year the business combination occurs.

Staff analysis

13. Our analysis covers:

    (a) The core time period (paragraphs 14–18);

    (b) The overlay (paragraphs 19–20); and

    (c) Addition to the overlay (paragraphs 21–26).

The core time period

14. We think the IASB should continue to require an entity to disclose information for however long the entity's management monitor whether the objectives of the business combination are being met.

15. We think doing so is better than specifying a time period because:

(a) doing so would require an entity to disclose information based on what is available internally to an entity's management. This information should be less costly because the information already exists. Specifying a fixed time period could result in an entity being required to develop information specifically to meet disclosure requirements.

(b) doing so caters for the fact that the management of different entities review the subsequent performance of business combinations differently. We think if an entity's management is reviewing information for their own purposes, that information is also likely to be useful to users, even if management of different entities review the subsequent performance in different ways.

(c) Doing so would capture ad-hoc information reviewed by an entity's management—for example from 'post-acquisition reviews' described in paragraph 9—when an entity's management use that information to assess the performance of a business combination. We think such information should be captured by this requirement.

(d) any fixed time period would be arbitrary and be subject to feedback similar to that received on the overlay.

16. To clarify the core time period and address any potential confusion between an entity monitoring the performance of a business combination and an entity monitoring the performance of a business as a whole, we think the IASB should clarify the core concept in the Discussion Paper. We think the IASB should clarify that an entity's management is considered to be monitoring whether the objectives of the business combination are being met if the entity's management is comparing actual

performance in subsequent periods with the entity's objectives (and targets) for the business combination it established when entering into the business combination.

17. For some objectives (and targets), it is possible that an entity would not disclose any information in some reporting periods if the entity's management plan to assess the achievement of that objective (and target) in a later reporting period (for example, where the objective (and target) is specifically linked to performance in a later reporting period). However, not providing information in earlier reporting periods in these situations should not, in our view, be considered as management 'not monitoring' whether the objective is being met because the entity has in place a process to compare actual performance to its initial target.

18. We accept the feedback in paragraph 5 that for some business combinations the objective might not be met for many years, by which point an entity's management may no longer be monitoring the performance of the business combination. Nevertheless, we agree with the rationale in paragraph 2.43 of the Discussion Paper that information about the subsequent performance of the business combination would still be useful for the first few years after the business combination for both management and users to help them understand the extent to which a business combination is meeting its objectives.

The overlay

19. We think the IASB should proceed with the overlay. We think such information would be useful. In particular, part of the IASB's reason for requiring entities to disclose information about the subsequent performance of a business combination is to help users assess management's stewardship of an entity's economic resources. Users said knowing that an entity's management is not monitoring or has stopped monitoring the performance of what can be significant and risky investments is relevant in their assessment of management's stewardship.

20. Feedback received over the exact time period for the overlay was mixed. Some stakeholders said the time period is right, but a few said the period is either too long

or too short. We acknowledge that the time period for this overlay is somewhat arbitrary, and we think that it is not possible to set a time period that would satisfy all stakeholders. Given the feedback, we think the year of the business combination and the two subsequent full years remains appropriate.

Addition to the overlay

21. As noted in paragraph 8, some respondents said in subsequent periods an entity's management might review information only in the context of the entity's annual budgeting process. Management of those entities would not review information in subsequent periods that compares actual performance to the entity's target for the business combination.

22. Applying the preliminary view, those entities would be required to disclose only that the entity's CODM stopped monitoring the performance of the business combination in the way described in the Discussion Paper. Those entities would not be required to disclose information that would allow a user to compare actual performance with the entity's target for a business combination. This could limit the usefulness of the information.

23. In addition, a few respondents said it could be misleading for an entity to disclose that it is stopped monitoring the performance of a business combination when it is reviewing information in the context of the annual budgeting process.

24. We think the IASB could build on the overlay to address this feedback. In particular, we think for the same period of time the overlay applies (see paragraph 20), the IASB should require an entity whose management stops monitoring the performance of a business combination to disclose information about actual performance using the metric set out in the year of acquisition if (and only if) information about actual performance using that metric is being received by the entity's management. This could help capture situations in which management is effectively monitoring the performance of the business combination, albeit not necessarily against management's acquisition-date business plan as envisaged by the IASB.

25. Therefore, an entity that monitors the performance of a business combination through reviewing the annual budgeting information rather than directly comparing actual performance to the entity's target at the time of the business combination as described in paragraph 8 would disclose:

    (a) that the entity's management stopped monitoring the business combination and the reasons why it stopped monitoring the business combination; and

    (b) actual information about the metric underpinning management's target if the entity's management receives that information internally.

26. We think requiring this information only if an entity's management receives information about the metric helps increase the usefulness of the information at a reasonable cost. An entity would not be required to produce this information specifically for financial statement disclosure purposes.

Staff recommendation

27. As a result of our analysis in paragraphs 13–26, we recommend the IASB:

    (a) proceed with the preliminary view to require an entity to disclose information about the subsequent performance of a business combination for as long as an entity's management continues to monitor whether the objectives of the business combination are being met (that is, the entity's management is comparing actual performance in subsequent periods with the entity's objectives and targets for the business combination it established when entering into the business combination);

    (b) continue with the preliminary view that if an entity's management does not monitor whether its objectives for a business combination are being met, the entity should disclose that fact and the reasons why it does not do so;

    (c) continue with the preliminary view that if an entity's management stops monitoring whether its objectives for a business combination are being met before the end of the second full year after the year of the business combination, that fact and the reasons why it has done so; and

(d) propose an entity whose management stops monitoring the performance of a business combination before the end of the second full year after the year of the business combination be required to disclose information about actual performance using the metric set out in the year of acquisition if (and only if) information about actual performance using that metric is being received by the entity's management.

Question one for the IASB
Does the IASB agree with our recommendation in paragraph 27?

Changing metrics

The preliminary view

28. Paragraph 2.21 of the Discussion Paper discusses situations in which the metrics management use to monitor the subsequent performance of a business combination change over time—for example, when an entity is reorganised.

29. The IASB considered it unreasonable to require an entity to continue disclosing metrics that no longer provide useful information to management or that are no longer available internally. However, changing the metrics without disclosing the reasons for that change could allow poor performance to be masked. To balance these concerns, the IASB's preliminary view was that it should not require an entity to continue disclosing a metric it no longer uses internally. Instead, when an entity makes such a change, it should be required to disclose:

(a) that it made the change;

(b) the reasons for the change; and

(c) the revised metrics.

Feedback

30. The IASB received mixed feedback. Most respondents who commented agreed with this preliminary view. However, some respondents—primarily accounting bodies and national standard-setters but also a few users—expressed concern that permitting entities to change the metrics would:

    (a) reduce comparability of the financial statements over time; and

    (b) allow entities to mask poor performance by disclosing a better performing metric instead.

31. Some respondents suggested an approach similar to that in paragraphs 29–30 of IFRS 8 *Operating Segments*. Those paragraphs require an entity to restate information for reporting segments for earlier periods if the entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change. An entity is not required to restate that information if the cost of doing so would be excessive.

32. One national standard-setter asked the IASB to consider a situation in which an entity changes metrics soon after the business combination is complete, for example if the acquiring entity obtains more detailed information about the acquired business. In this situation, management might change its objectives and targets from those it set during the acquisition process. Most fieldwork participants said the acquirer typically obtains much more detailed information after the business combination, and this can lead to the acquirer's management reassessing the expected benefits and changing its targets.

Staff analysis

33. Most respondents agreed with the IASB's preliminary view to allow an entity to change the metrics its management uses to monitor whether a business combination met its objectives. Some of those respondents highlighted that information about management changing metrics and about the new metrics is useful to communicate changes in the entity's objectives for the business combination.

34. We think the preliminary view described in paragraph 2.21 of the Discussion Paper was meant to provide relief to entities from having to disclose information in subsequent periods only when disclosing information based on the original metrics would be impracticable. We think this is evidenced by the example included in paragraph 2.21 of the Discussion Paper—that is, a reorganisation resulting in information about a particular metric no longer being available.

35. We think the IASB did not intend to allow an entity to disclose an updated objective or target subsequent to the business combination to reflect management's updated views of how a business combination is expected to perform.

36. In October 2021 the IASB tentatively decided that based on the *Conceptual Framework for Financial Reporting*, information about the subsequent performance of business combinations, including information about an entity's objectives and targets, can be required in financial statements. Part of the reason for that tentative decision is that information about the subsequent performance of business combinations relates to elements recognised in financial statements (for example, the assets acquired, the liabilities assumed and the goodwill recognised as a result of a business combination). We think requiring an entity to update its objective or target for a business combination after the transaction is completed would break the link with the assets and liabilities recognised as a result of the business combination. In particular, it is the original objectives and targets that are relevant in determining the price paid for the business combination.

37. Accordingly, we think, applying the preliminary view, if an entity's management changes its targets for a business combination for reasons other than impracticability, management would no longer be considered to be monitoring the subsequent performance of the business combination. The entity would therefore no longer be required to disclose information about the subsequent performance of the business combination. Additionally, if this happens during the overlay period, the entity would be required to disclose the information discussed in paragraph 2(b)).

38. We think it would be a relatively narrow fact pattern for an entity applying the IASB's preliminary views to disclose that it has changed metrics due to impracticability, rather than disclosing that management of the entity has stopped monitoring a business combination. To be in that situation, an entity would need to:

    (a) maintain its original acquisition-date objective for the business combination; and

    (b) be using a new metric to assess that original objective.

39. It is unclear from feedback how frequently that situation would arise in practice. Therefore, it is not clear how beneficial this requirement would be. In addition, we think:

    (a) including many overlays to the core principle of disclosing information an entity's management is using to compare actual performance to initial targets could increase the complexity of the requirements.

    (b) Our recommendation in paragraph 27(d) addresses some of the concerns the IASB heard that led to its preliminary view about changing metrics (paragraph 29).

40. Accordingly, we think the IASB should not proceed with a requirement for an entity to disclose if it changes the metric used and the reasons for the change.

Staff recommendation

41. As a result of our analysis in paragraphs 33–40, we recommend the IASB not proceed with the preliminary view in relation to when an entity changes the metric its management uses to monitor whether their objectives for the business combination are being met.

Question two for the IASB
Does the IASB agree with our recommendation as described in paragraph 41?

Other aspects of subsequent performance information

42. We considered some other aspects of the IASB's preliminary view to require entities to disclose information about the subsequent performance of business combinations. In particular:

    (a) whether information about an entity's target can be disclosed as a range (paragraphs 43–46); and

    (b) whether the information should be limited to key objectives (paragraphs 47–50).

Use of ranges

43. In addition to the IASB's preliminary view about the subsequent performance of business combinations, the IASB also considered requiring an entity to disclose quantitative information about synergies expected from a business combination (expected synergies).

44. Paragraph 2.91 of the Discussion Paper notes that quantitative information about expected synergies could be the 'estimated amount or range of amounts of the synergies'. However, the Discussion Paper is silent as to whether information about an entity's targets for a business combination can be disclosed as a range rather than a point estimate.

45. In response to the Discussion Paper and in testing of staff examples, some preparers asked if an entity could disclose their targets for the business combination as a range. Those preparers said assumptions for pricing a business combination, as well as management's targets for a business combination, are often estimated as a range rather than precise amounts.

46. We think the IASB should clarify that information about an entity's target for a business combination could be disclosed as a range or as a precise amount. Similar to

expected synergies, we acknowledge some targets can be difficult to estimate with precision and therefore management might only estimate those targets as a range.

Key objectives

47. As noted in paragraphs 27–44 of Agenda Paper 18C to the IASB's April 2021 meeting, a common concern about disclosing information about the subsequent performance of business combinations is that the information could be commercially sensitive. The IASB discussed this concern and in September 2022 tentatively decided to propose an exemption in specific circumstances that would permit an entity not to disclose some information.

48. We think an additional factor contributing to this concern may have been a perception about being required to disclose detailed information about an entity's objectives for a business combination. This is highlighted by the response to our staff examples—for example, paragraph 42 of Agenda Paper 18A to the IASB's April 2022 meeting highlighted many preparers saying the aggregated levels at which information was disclosed in the staff examples would be generally acceptable.

49. We think the IASB could clarify that information about an entity's objectives and targets for a business combination should focus only on the key objectives—that is, the objectives that are critical to the success of the business combination. An entity would not be expected to disclose all objectives and targets for a business combination.

50. We think this is what the IASB intended with its preliminary view. Paragraph 2.12 of the Discussion Paper describes the objectives an entity would need to disclose as 'the objectives of the acquisition that management considers must be achieved for the acquisition to be a success'.

Staff recommendation

51. We recommend the IASB:

    (a) permit an entity to disclose information about its targets for a business combination as a range or a point estimate; and

    (b) clarify that an entity would be required to disclose information only about its key objectives—that is, the objectives that are critical to the success of the business combination.

Question three for the IASB
Does the IASB agree with our recommendation in paragraph 51?