
IASB[®] meeting

Date	January 2023
Project	Business Combinations—Disclosures, Goodwill and Impairment
Topic	Expected synergies
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Purpose and structure

1. In November 2021 the International Accounting Standards Board discussed aspects of its preliminary view to require entities to disclose quantitative information about synergies expected from a business combination (expected synergies). The preliminary view was expressed in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*.
2. In [September 2022](#) the IASB tentatively decided to propose:
 - (a) adding to IFRS 3 *Business Combinations* a requirement for an entity to disclose in the year of a business combination quantitative information about expected synergies; and
 - (b) an exemption in specific circumstances that would permit an entity not to disclose quantitative information about expected synergies.
3. In the November 2021 meeting the IASB did not make tentative decisions about two aspects of the preliminary view and instead asked us to test those aspects as part of our staff examples. The purpose of this meeting is to provide feedback on our staff examples, our analysis on those aspects of the preliminary view and to ask the IASB whether it agrees with our recommendation.

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4. This paper is structured as follows:
- (a) Summary of staff recommendation (paragraph 5);
 - (b) Background (paragraphs 6–15);
 - (c) Synergies disaggregated by nature (paragraphs 16–47);
 - (d) Definition of ‘realised’ (paragraphs 48–63); and
 - (e) Summary of IASB decisions (paragraph 64).

Summary of staff recommendation

5. We recommend that the IASB propose:
- (a) requiring entities to disclose quantitative information about expected synergies disaggregated by nature; for example, total revenue synergies, total cost synergies and totals for other types of synergies.
 - (b) linking the level of aggregation in which synergies are required to be disclosed at with the application guidance accompanying the exemption—the application guidance would require an entity that concludes disclosing expected synergies by nature would qualify for the exemption to consider whether disclosing that information at a total level (that is, not disaggregated by nature) could resolve concerns about commercial sensitivity.
 - (c) specifying that a description of the expected synergies is a description of the nature of the synergies.
 - (d) requiring entities to disclose when the benefits expected from the synergies are expected to start and how long they will last (which would require an entity to identify whether those synergies are expected to be finite or indefinite).

Background

Preliminary view

6. Paragraph B64(e) of IFRS 3 requires an entity to disclose, in the year a business combination occurs:
 - 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.
7. As stated in paragraphs 2.62–2.63 of the Discussion Paper, users of financial statements (users) said this requirement often results in entities providing a generic description of expected synergies that is not useful. In addition, achieving synergies is often an important objective of a business combination. Users said information on the nature, timing and amount of expected synergies is important.
8. The preliminary view is to require an entity to disclose in the year a business combination occurs:
 - (a) a description of the 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 the synergies; and
 - (d) the estimated cost or range of costs to achieve those synergies.

Feedback to the Discussion Paper

9. Feedback on the preliminary view was mixed. Respondents agreeing with the preliminary view included some national standard-setters, accounting bodies, a few accounting firms, a few preparers and almost all regulators who commented on this

preliminary view. Most users who commented on this preliminary view agreed and said information about expected synergies will be useful.

10. Academic evidence shows disclosures about expected synergies are value relevant and are useful (paragraphs 12–19 of [Agenda Paper 18F](#) to the IASB’s May 2021 meeting).
11. Those disagreeing include some accounting firms, some national standard-setters and most preparers that commented on this preliminary view.
12. Many respondents expressed concern that quantitative information about expected synergies could be commercially sensitive or could be considered to be forward looking in their jurisdiction.

The IASB’s prior discussions

13. In November 2021 the IASB tentatively decided:
 - (a) not to define ‘synergies’.
 - (b) not to make changes to its preliminary view as a result of feedback on other specific aspects of its preliminary view (for example, clarifying whether information should be based on synergies expected at the time of agreeing the price or subsequent to closing the transaction and whether to require entities to also disclose information about other components of goodwill).
14. At that meeting, the IASB discussed, but did not make tentative decisions on, whether to require an entity to disclose information about:
 - (a) total expected synergies disaggregated by nature; for example, total revenue, total cost and totals for other types of synergies; and
 - (b) when the benefits expected from the synergies are expected to start and how long they will last (which would require an entity to identify whether those synergies are expected to be finite or indefinite).

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15. Paragraph 2 of this paper summarises the IASB’s tentative decisions at its September 2022 meeting.

Synergies disaggregated by nature

November 2021 IASB meeting

16. In [Agenda Paper 18A](#) to the IASB’s November 2021 meeting we recommended that the IASB ‘require entities to disclose quantitative information about synergies at one level below total expected synergies—that is, at the level of total revenue, cost or other synergies’.
17. In November 2021, IASB members:
- (a) commented on the clarity of this recommendation. Consequently, we have updated the wording of our recommendation to refer to ‘total expected synergies disaggregated by nature; for example, total revenue, total cost and totals for other types of synergies’.
 - (b) were particularly concerned about the commercial sensitivity of requiring information to be disaggregated at that level. The IASB did not make a decision on this topic but instead asked us to test our staff examples using this level of aggregation.
18. Our staff examples (see [Agenda Paper 18C](#) to the IASB’s April 2022 meeting) disclosed information about expected synergies distinguishing between total cost and total revenue synergies.

Feedback

19. We have received feedback on the level of aggregation of expected synergies from the Discussion Paper, testing our staff examples, our research into existing information

provided by entities outside financial statements, and Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) meetings.

20. We have organised this feedback to discuss:
- (a) Usefulness of information (paragraphs 21–25);
 - (b) Commercial sensitivity of information (paragraphs 26–33); and
 - (c) Publicly available information (paragraphs 34–36).

Usefulness of information

21. As noted in paragraph 9, most users responding to the Discussion Paper said information about expected synergies would be useful. In addition, a few respondents said information about the disaggregation of synergies between cost and revenue synergies is needed.
22. In addition, at the [joint CMAC and GPF meeting in October 2020](#) some CMAC members said they view cost and revenue synergies differently and one CMAC member highlighted the importance of distinguishing between revenue and cost synergies, rather than reporting both together.
23. At the [joint CMAC and GPF meeting in June 2022](#) a few CMAC members said that they could accept quantitative information about expected synergies as a total amount rather than disaggregated by nature.
24. When testing our staff examples most users said the level of aggregation illustrated in the staff examples (that is, by total revenue and total cost synergies) 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.

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25. 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.

Commercial sensitivity of information

26. Many preparers responding to the Discussion Paper said information about expected synergies could be commercially sensitive. In the following paragraphs we highlight feedback that we think could be relevant in discussing the level of aggregation of quantitative information about expected synergies.
27. A few of those preparers provided examples of information they would consider to be commercially sensitive. The examples included information about:
- (a) the cost to produce products or product margins—a few respondents said this information could be used by competitors to undercut the entity or by customers to demand that any planned cost reductions are reflected in lower prices for goods or services;
 - (b) employees and particularly future restructuring plans—a few respondents said a requirement to disclose this information could conflict with laws in their jurisdiction about the disclosure of information related to redundancies; and
 - (c) how the transaction was priced—one respondent said information about expected synergies could allow counterparties in future business combinations to estimate the maximum price an entity is willing to pay for that future business combination.
28. A few respondents to the Discussion Paper, including one preparer, said they had concerns about the commercial sensitivity of quantitative information about expected synergies but that those concerns could be avoided if the information is disclosed at an aggregated enough level.
29. One fieldwork participant discussing the preliminary views said disclosing quantitative information about total expected revenue synergies and total expected

cost synergies would not be commercially sensitive but disclosing a detailed breakdown about where those synergies are expected to arise could be because such disclosure could affect the attainment of those synergies.

30. In response to our staff examples, many preparers said quantitative information about expected synergies disaggregated by nature of synergies (for example, total revenue synergies) would not be commercially sensitive. Those preparers said entities often disclose such information in documents outside financial statements. This is consistent with our research findings (see paragraphs 34–36).
31. However, many preparers responding to our staff examples (which includes preparers who submitted comments letters as described in paragraph 27) 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 to pay for that business. Those preparers said disclosing quantitative information about expected synergies could allow competitors and potential future targets to 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. 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.
32. 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

(see paragraph 6). Those preparers said employees are likely to consider ‘synergies’ to mean ‘redundancies’.

33. 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.

Publicly available information

34. As noted in [Agenda Paper 18A](#) to the IASB’s April 2022 meeting, we reviewed information entities currently disclose about business combinations (primarily outside financial statements) for a sample of 24 large business combinations.
35. Most entities in our sample disclosed quantitative information about expected synergies. 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.
36. Of entities that disclosed quantitative information about expected synergies, the level of aggregation 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 Generally Accepted Accounting Principles (US GAAP)) disaggregated expected synergies by financial statement line item. The table below summarises our review:

Description	Entities applying IFRS Accounting Standards	Entities applying US GAAP
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

Staff analysis

37. Feedback on the level of aggregation indicates the information that is most useful to users is quantitative information about synergies disaggregated by nature. However, users could cope in their analysis with quantitative information being provided at a total synergies level—that is not disaggregated further.
38. In our view, feedback on the staff examples and the evidence of information disclosed outside financial statements supports that requiring quantitative information to be disclosed disaggregated by nature is not, in many cases, commercially sensitive.
39. We think some of the concerns raised by respondents to the Discussion Paper about the potential sensitivity of this information would be resolved by disaggregating the information only by nature. For example, disclosing information about cost synergies in total would not require an entity to disclose the number or existence of planned redundancies.
40. We think we could make this clearer by clarifying that the description of expected synergies in paragraph 8(a) is a description of the nature of the expected synergies, not a description of exactly where the synergies are expected to arise.
41. Despite evidence to support disclosing this information disaggregated by nature not being sensitive in many cases, we recognise some respondents to our staff examples were still concerned about the potential commercial sensitivity of some of the information illustrated in those examples.
42. In [September 2022](#) the IASB tentatively decided to propose an exemption in specific circumstances that would permit an entity not to disclose quantitative information about expected synergies. That exemption responds to any remaining stakeholder concerns about information potentially being commercially sensitive.
43. In September 2022 the IASB also directed us to include application guidance for the exemption similar to that described in [Agenda Paper 18C](#) to the IASB's September 2022 meeting. One element of the application guidance we outlined in that paper

would be a requirement for an entity that identified information that would qualify for the exemption to consider whether it is possible to disclose information at a sufficiently aggregated level that would resolve concerns while still meeting the objectives of the disclosure requirements.

44. We think the IASB could be explicit about the interaction between the exemption and the requirement to disclose quantitative information about expected synergies. We think the IASB could specify that if an entity concludes information about expected synergies disaggregated by nature would qualify for the exemption, the application guidance would require the entity to consider whether disclosing information about expected synergies at a total level (that is, not disaggregated by nature) could resolve concerns about commercial sensitivity.
45. We think the combination of requiring quantitative information about expected synergies to be disclosed disaggregated only by nature and the exemption from disclosing information in specific circumstances best balances user needs and preparer feedback.
46. In addition, although the IASB tentatively decided in November 2021 not to define synergies, we think requiring an entity to disaggregate synergies by nature and including some examples of the different natures of synergies (for example total revenue synergies, total cost synergies) could be helpful in responding to feedback requesting the IASB to define synergies.

Staff recommendation

47. We recommend the IASB:
 - (a) require entities to disclose quantitative information about total expected synergies disaggregated by nature; for example, total revenue, total cost and totals for other types of synergies.
 - (b) link the level of aggregation in which synergies are required to be disclosed at with the application guidance accompanying the exemption—the application

guidance would require an entity that concludes disclosing expected synergies by nature would qualify for the exemption to consider whether disclosing that information at a total level (that is, not disaggregated by nature) could resolve concerns about commercial sensitivity.

- (c) specify that a description of the synergies expected from combining the operations of the acquired business with the entity's business is a description of the nature of the synergies.

Question one for the IASB

Do you agree with our recommendation in paragraph 47?

Definition of 'realised'

November 2021 IASB meeting

- 48. The preliminary view would require an entity to explain when expected synergies arising from a business combination are expected to be 'realised' (see paragraph 8).
- 49. Some respondents to the Discussion Paper suggested defining 'realised'. We identified two possible understandings regarding when synergies are 'realised':
 - (a) when the entity has taken steps to benefit from the expected synergies; or
 - (b) the duration of the benefit resulting from the expected synergies.
- 50. The difference in views can be illustrated with an example—Entity A manufactures and sells a product for which it has exclusive sales rights in a jurisdiction for a period of 5 years. The entity intends to exit the market at the end of those 5 years. As a result of a business combination the entity expects to be able to consolidate warehouse facilities between its existing and acquired business and therefore expects to close a warehouse in the year following the business combination. This will result in cost synergies that will benefit the entity for 4 years from the period the warehouse is

closed until the end of its exclusive sales rights period. In this example the entity expects to:

- (a) take steps to obtain the benefit in the year following the business combination; and
- (b) benefit from the cost synergies in years 2–5 (a period of 4 years).

51. In November 2021 we recommend that the IASB not require an entity to disclose information about when the expected synergies are expected to be realised but to instead require an entity to disclose when the benefits expected from the synergies are expected to start and the expected duration of those benefits.
52. IASB members found the term ‘duration’ confusing. Some IASB members said that ‘duration’ implies that the IASB expects synergies to have a finite life. Two IASB members said that the information that is useful about synergies is information about when the benefits expected from the synergies are expected to start and an indication as to whether the synergies are expected to be one-off or recurring.
53. The IASB asked us, when testing our staff examples, to illustrate in those staff examples information about when the benefits expected from the synergies are expected to start and how long they will last (which would require an entity to identify whether those synergies are expected to be one-off or recurring).
54. In our staff examples we illustrated the IASB’s request by including in one example a statement that the entity expects ‘to achieve recurring annual cost savings of approximately CU28 million for Segment Beta by 20X8 (compared to 20X5).’
55. This illustrates that the benefits expected from the synergies are expected to start by 20X8 and that they are expected to be recurring.

Feedback

56. When testing our staff examples, most users did not comment specifically on information about when the benefits expected from the synergies are expected to start

and whether those synergies are expected to be recurring. One user said they need information to allow them to assess when the benefits from any expected synergies are expected to start.

57. Some preparers responding to our staff examples said that as part of their acquisition process they estimate when the benefits expected from the synergies are expected to start and how long those synergies are expected to last. One of those preparers said they distinguish between synergies that are expected to be indefinite and synergies that have a finite life.
58. One preparer said it is not possible to estimate a period over which synergies are expected to last because synergies are expected to be indefinite.
59. Some preparers did not directly comment on the illustration of expected synergies in paragraph 54 but said the staff examples were realistic and reflect information that is available internally.
60. Of the 18 entities in our sample that disclosed quantitative information about expected synergies (see paragraph 36):
 - (a) 13 provided the amount of indefinite annual synergies and the date the benefits expected from those synergies are expected to start (that is, similar information to our staff examples as described in paragraph 54);
 - (b) three provided the annual expected amount of synergies but did not disclose the expected start date for achieving the benefits expected from those synergies; and
 - (c) the remaining entities provided quantitative information about expected synergies in a different way (for example, the net present value of the expected synergies).

Staff analysis

61. Evidence from testing our staff examples and from information provided by entities for our sample of business combinations indicates that it is feasible for entities to disclose information about when the benefits expected from the synergies are expected to start and to indicate whether those synergies are expected to be finite or indefinite.
62. In addition, feedback from users indicates such information will be useful.

Staff recommendation

63. On the basis of the evidence described in paragraphs 56–60 and our analysis in paragraphs 61–62, we recommend not requiring an entity to disclose when the synergies are expected to be realised but instead proposing to require an entity to disclose information about when the benefits expected from the synergies are expected to start and how long they will last (which would require an entity to identify whether those synergies are expected to be finite or indefinite).

Question two for the IASB

Do you agree with our recommendation in paragraph 63?

Summary of IASB decisions

64. If the IASB agrees with our recommendations in this Agenda Paper and following the tentative decisions made in November 2021 and September 2022, the IASB will have tentatively decided to propose:
- (a) requiring an entity to disclose:
 - (i) a description of the nature of the synergies expected from combining the operations of the acquired business with the entity's business;

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- (ii) when the benefits expected from the synergies are expected to start and how long they will last (which would require an entity to identify whether those synergies are expected to be finite or indefinite);
 - (iii) the estimated amount or range of amounts of the synergies disaggregated by nature; for example, total revenue, total cost and totals for other types of synergies; and
 - (iv) the estimated cost or range of costs to achieve those synergies.
 - (b) an exemption in specific circumstances that would permit an entity not to disclose the information described in (a);
 - (c) linking the level of aggregation in which synergies are required to be disclosed at with the application guidance accompanying the exemption—the application guidance would require an entity that concludes disclosing expected synergies by nature would qualify for the exemption to consider whether disclosing that information at a total level (that is, not disaggregated by nature) could resolve concerns about commercial sensitivity;
 - (d) not to define synergies; and
 - (e) not to make changes to its preliminary view as a result of feedback on other specific aspects of its preliminary view (for example, clarifying whether information should be based on synergies expected at the time of agreeing price or subsequent to closing the transaction and whether to require entities to also disclose information about other components of goodwill).