
IASB[®] meeting

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Project	Business Combinations—Disclosures, Goodwill and Impairment
Topic	Disclosure requirements for specific types of entities
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Purpose

1. This paper includes our analysis and recommendations on whether the International Accounting Standards Board (IASB) should:
 - (a) require subsidiaries without public accountability to disclose information that would be required by the IASB's tentative decisions in this project (paragraphs 2–24).
 - (b) require private and unlisted entities to disclose information about the subsequent performance of business combinations (paragraphs 25–37).

Subsidiaries without public accountability

Background

2. In July 2021, the IASB published the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Subsidiaries ED). The IASB is expected to issue a new IFRS Accounting Standard *Subsidiaries without Public Accountability* (Subsidiaries

Standard) in 2024. The Subsidiaries Standard will permit eligible subsidiaries¹ to apply IFRS Accounting Standards with reduced disclosure requirements.

3. An eligible subsidiary that applies the Subsidiaries Standard will apply the recognition, measurement and presentation requirements in IFRS Accounting Standards and the disclosure requirements in the Subsidiaries Standard. The disclosure requirements in the Subsidiaries Standard are to be grouped by the IFRS Accounting Standard to which they relate.
4. The Subsidiaries ED proposed reduced disclosure requirements for IFRS Accounting Standards issued up to February 2021. Subsequent to this, on an ongoing basis, each new or amended IFRS Accounting Standard will include amendments to the Subsidiaries Standard so that the Subsidiaries Standard remains up to date and eligible subsidiaries have appropriate disclosure requirements available to them by the time they are required to apply a new or amended IFRS Accounting Standard.² Consequently, this paper considers amendments to the Subsidiaries Standard in respect of the disclosure requirements the IASB has tentatively decided to include in its exposure draft in its Business Combinations—Disclosure, Goodwill and Impairment project.

Staff analysis

5. In April 2023 the IASB discussed feedback on the Subsidiaries ED and redeliberated some of the individual proposed disclosures. Paragraph 8 of [Agenda Paper 31A](#) to that meeting sets out the principles to apply when considering the information needs of users of financial statements (users) of eligible subsidiaries. As described in that paragraph, those users find the following information useful:
 - (a) short-term cash flows, obligations, commitments and contingencies;

¹ The term 'eligible subsidiaries' refers to an entity that meets the requirements to qualify as a 'subsidiary without public accountability' that will be set out in the Subsidiaries Standard.

² See [IASB Update](#) of the June 2022 IASB meeting.

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- (b) liquidity and solvency;
 - (c) measurement uncertainty;
 - (d) accounting policy choices; and
 - (e) disaggregation of amounts.
6. We applied the principles in paragraph 5 to consider whether the IASB should require an eligible subsidiary to disclose:
- (a) information about the subsequent performance of a business combination (ie information about key objectives, targets and subsequent performance of a strategically important business combination) (paragraphs 7–13);
 - (b) quantitative information about expected synergies (paragraphs 14–17);
 - (c) segments to which goodwill is allocated (paragraphs 18–22); and
 - (d) amendments to current requirements (paragraph 23).

Information about the subsequent performance of a business combination

7. In [September 2022](#) the IASB tentatively decided to propose adding to IFRS 3 *Business Combinations* a requirement for an entity to disclose, for ‘strategically important’ business combinations, information about:
- (a) management’s objectives for the business combination;
 - (b) the metrics and targets management will use to monitor whether those objectives are being met; and
 - (c) in subsequent periods, the extent to which management’s objectives are being met, using those metrics, for as long as management monitors the business combination against its objectives.
8. There are arguments for requiring an eligible subsidiary to disclose this information, for example information about management’s objectives and targets could provide information about:

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- (a) short-term cash flows; and
 - (b) measurement uncertainty because that information helps to explain the price paid and therefore the value recognised for the assets and liabilities acquired in the business combination.
 9. However, those factors are not the primary reason the IASB tentatively decided to propose requiring entities to disclose this information.
 10. As noted in paragraph 2.5 of the Discussion Paper *Business Combination—Disclosures, Goodwill and Impairment*, those disclosure requirements would help a user assess management’s ability to realise the expected benefits from a business combination and assess whether the subsequent performance of that business combination indicates that management paid a reasonable price for the acquired business. Hence, users would use the information to assess management’s stewardship of the company’s economic resources.
 11. The users of an eligible subsidiary’s financial statements typically represent creditors and lenders. Those types of users are likely to be more interested in short-term cash flows and information to assess the entity’s ability to repay amounts owed and are less likely to need to assess management’s stewardship of investment capital than users of financial statements of entities with public accountability.
 12. Accordingly, we think the benefits of requiring an eligible subsidiary to disclose information about the subsequent performance of a business combination are lower than for other entities. We think the cost of disclosing the information for eligible subsidiaries would be similar to those other entities.
 13. We therefore think the benefits of requiring an eligible subsidiary disclose information about the subsequent performance of its business combinations would not justify its costs. We recommend that the IASB not require eligible subsidiaries to disclose information about the subsequent performance of business combinations.

Quantitative information about expected synergies

14. In [January 2023](#) the IASB tentatively decided to propose requiring an entity to:
- (a) disclose quantitative information about expected synergies by category (for example, total revenue synergies, total cost synergies and the total for each other type of synergy).
 - (b) describe the synergies by specifying each category of expected synergy.
 - (c) disclose when the benefits expected from the synergies are expected to start and how long they will last. This disclosure would require an entity to identify whether the synergies are expected to be finite or indefinite.
15. The requirement for an entity to disclose quantitative information about expected synergies builds on paragraph B64(e) of IFRS 3, which requires an entity to disclose factors that make up goodwill. Feedback from users suggested that entities currently often disclose a generic description that is not useful. Users said quantitative information about expected synergies would allow them to better understand why an entity paid the price it did for the acquired business.
16. We recommend the IASB propose to require eligible subsidiaries to disclose quantitative information about an entity's expected synergies because that information is typically about an entity's short-term cash flows. In our review of information a sample of entities disclose outside financial statements (see paragraphs 37–39 of [Agenda Paper 18A](#) to the IASB's April 2022 meeting), we observed that those entities often provide quantitative information about expected synergies outside financial statements in a form that gives information about short-term cash flows. For example, stating that the acquirer expected an amount of run-rate cost synergies by year 3.
17. In [September 2022](#) the IASB tentatively decided to propose exempting an entity from disclosing quantitative information about synergies in specific circumstances³. We recommend the IASB propose allowing an eligible subsidiary to also apply that

³ In [January 2023](#) the IASB tentatively decided on the design of the exemption.

exemption. This is consistent with how the IASB has treated the exemption from disclosing some items of information in paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—paragraph 200 of the Subsidiaries ED proposes allowing an eligible subsidiary to apply that exemption.

Segments to which goodwill is allocated

18. In Agenda Paper 18A, we recommend the IASB propose requiring an entity applying IFRS 8 to disclose in which reportable segments the CGUs containing goodwill are included. If the IASB agrees with our recommendation, the IASB will also need to consider whether to require eligible subsidiaries applying the Subsidiaries Standard to disclose this information.
19. Our recommendation in Agenda Paper 18A is relevant only to entities that apply IFRS 8. However, the Subsidiaries ED notes that eligible subsidiaries are not required to disclose information required by IFRS 8. Paragraph 213 of the Subsidiaries ED states:

An entity within the scope of this [draft] Standard is not required to apply IFRS 8. If such an entity chooses to disclose information about segments that does not comply with IFRS 8, it shall not describe the information as segment information. An entity choosing to make such disclosures shall describe the basis for preparing and making those disclosures. If an entity chooses to apply IFRS 8, it shall apply all the disclosure requirements in IFRS 8 and shall state that it has applied IFRS 8.
20. Paragraphs 129 and 130(c)(ii) of IAS 36 contain disclosure requirements that apply if an entity applying the IAS 36 disclosure requirements reports segment information in accordance with IFRS 8.
21. In the Subsidiaries ED the IASB did not propose an eligible subsidiary be required to disclose similar information if the eligible subsidiary chooses to apply IFRS 8.

Respondents did not suggest the IASB add such requirements (see paragraphs A16.1–A16.18 of [Agenda Paper 31A](#) to the IASB’s April 2023 meeting).

22. We recommend the IASB not require an eligible subsidiary to disclose in which reportable segments the CGUs containing goodwill are included because eligible subsidiaries are not required to apply IFRS 8. We also recommend the IASB, consistent with similar requirements in IAS 36, not add a requirement to the Subsidiaries Standard for an eligible subsidiary to disclose in which reportable segments the CGUs containing goodwill are included if that eligible subsidiary chooses to apply IFRS 8.

Amendments to current requirements

23. As part of the Business Combinations—Disclosures, Goodwill and Impairment project, the IASB is also proposing to amend some other disclosure requirements in IFRS 3. The following table analyses whether those amendments should be proposed in the Subsidiaries Standard:

Proposal	Analysis and recommendation
<p><u>Disclosure objectives</u></p> <p>In September 2022 the IASB tentatively decided to propose adding two new disclosure objectives to IFRS 3 that would require an entity to disclose information to help users of financial statements understand:</p> <ul style="list-style-type: none"> • the benefits that an entity expected from a business combination when agreeing the price to acquire a business; and 	<p><i>We recommend the IASB not include the new disclosure objectives in the Subsidiaries Standard.</i></p> <p>In April 2023 the IASB tentatively decided not to include disclosure objectives or guidance on how to apply disclosure requirements in the Subsidiaries Standard.</p>

<ul style="list-style-type: none"> the extent to which an entity’s objectives for a business combination are being met. 	
<p><u>Strategic Rationale</u></p> <p>In September 2022, the IASB tentatively decided to propose replacing the requirement for an entity to disclose the ‘primary reasons for the business combination’ in paragraph B64(d) of IFRS 3 with a requirement to disclose the ‘strategic rationale for undertaking the business combination’.</p>	<p><i>We recommend the IASB not require an eligible subsidiary to disclose this information.</i></p> <p>In the Subsidiaries ED the IASB did not propose to require eligible subsidiaries to disclose the primary reasons for the business combination.</p> <p>In May 2023 the IASB considered a suggestion from three respondents to the Subsidiaries ED to require an eligible subsidiary to disclose this information (see paragraph A2.1 of Agenda Paper 31A to the IASB’s May 2023 meeting). The IASB tentatively decided to confirm its view in the Subsidiaries ED and not require an eligible subsidiary to disclose this information.</p>
<p><u>Contribution of the acquired business</u></p> <p>In November 2021 the IASB tentatively decided to propose amendments to the requirements in paragraph B64(q) of IFRS 3, for example to replace the term ‘profit or loss’ with ‘operating profit or loss’.</p>	<p><i>We recommend the IASB does not require an eligible subsidiary to disclose this information.</i></p> <p>In the Subsidiaries ED the IASB did not propose to require eligible subsidiaries to disclose information required by paragraph B64(q) of IFRS 3.</p>

	<p>In May 2023 the IASB considered a suggestion from one respondent to the Subsidiaries ED to require an eligible subsidiary to disclose this information (see paragraph A2.22(b) of Agenda Paper 31A to the IASB’s May 2023 meeting). The IASB tentatively decided to confirm its view in the Subsidiaries ED to not require an entity to disclose this information.</p>
<p><u>Liabilities arising from financing activities and defined benefit pension liabilities</u></p> <p>In November 2021 the IASB tentatively decided to propose to remove the term ‘major’ from paragraph B64(i) of IFRS 3.</p>	<p><i>We recommend the IASB proposes no amendment to the Subsidiaries Standard</i></p> <p>The equivalent of paragraph B64(i) of IFRS 3 in the Subsidiaries ED uses wording from <i>IFRS for SMEs</i> instead of IFRS Accounting Standards. Paragraph 36(g) of the Subsidiaries ED does not use the term ‘major’. Paragraph 36(g) of the Subsidiaries ED would require an eligible subsidiary to disclose ‘the amounts recognised at the acquisition date for each class of the acquiree’s assets and liabilities’.</p> <p>Accordingly, there is no need to amend the Subsidiaries ED to reflect the IASB’s proposed amendments to paragraph B64(i) of IFRS 3.</p>

Staff recommendations

24. We recommend that the IASB propose:
- (a) to require an eligible subsidiary applying the Subsidiary Standard to disclose quantitative information about expected synergies, subject to the same exemption as entities applying IFRS 3; and
 - (b) to not make other amendments to the Subsidiaries Standard relating to tentative decisions made by the IASB in the Business Combinations—Disclosures, Goodwill and Impairment project.

Question 1— Amending disclosure requirements of the Subsidiaries Standard

1. Do IASB members agree with our recommendation for amendments to the Subsidiaries Standard, as described in paragraph 24?

Unlisted entities**Feedback**

25. Some national standard-setters and preparers responding to the Discussion Paper (see paragraph 122 of [Agenda Paper 18C](#) to the IASB's April 2021 meeting) suggested not requiring private, unlisted entities and small and medium sized entities to disclose information about the subsequent performance of business combinations, because:
- (a) the information needs of users of these entities' financial statements is likely to be lower than for public listed entities;
 - (b) the owners of these entities are likely to have better access to information than for public listed entities; and
 - (c) these entities typically have smaller finance departments and therefore any disclosure requirements in this area are likely to have a disproportionate cost for these entities.

26. Respondents did not comment on any of the IASB's other preliminary views in relation to these types of entities.

Staff analysis

27. We will pass the feedback on small and medium entities to the *IFRS for SMEs* Accounting Standard team. Eligible subsidiaries applying the Subsidiaries Standard are a subset of the population of private, unlisted entities. The following analysis applies to other private, unlisted entities that apply IFRS Accounting Standards and are either not eligible to apply the Subsidiaries Standard or do not opt to do so—hereafter referred to as unlisted entities that apply full IFRS Accounting Standards.
28. There are some IFRS Accounting Standards that include requirements that are not applicable for unlisted entities:
- (a) Paragraph 2 of IFRS 8 *Operating Segments* states that an entity is required to apply that IFRS Accounting Standard only if the entity (i) has debt or equity instruments are traded in a public market; or (ii) files or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. Paragraphs BC18–BC23 of IFRS 8 explain the reason for the scope. However, those paragraphs do not explain why information disclosed applying IFRS 8 is needed only for listed entities.
 - (b) Paragraph 4 of IFRS 10 *Consolidated Financial Statements* allows an entity to not prepare consolidated financial statements if specific requirements are met. Those requirements include that the entity's debt or equity instruments are not traded in a public market and that the entity did not file, nor is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. Paragraph BCZ18 of IFRS 10 explains that in the IASB's view, the exemption in IFRS 10 should not be extended to listed entities because the

interest of the users of these entities are best served if the entity prepares consolidated financial statements.

- (c) Paragraph 2 of IAS 33 *Earnings per Share*, states that an entity is required to apply that IFRS Accounting Standard only if (i) the entity's ordinary shares or potential ordinary shares are traded in a public market; or (ii) the entity files, or is in the process of filing its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market.

29. We think the IASB should not set separate requirements for unlisted entities that apply full IFRS Accounting Standards. We think the benefits and costs of requiring such an entity to disclose information about the subsequent performance of business combinations are the same as those for other entities applying IFRS Accounting Standards. In particular, we considered:
- (a) the information needs for financial statement users of unlisted entities that apply full IFRS Accounting Standards (paragraphs 30–32); and
 - (b) costs of requiring the information (paragraphs 33–36).

Information needs

30. Unlisted entities that apply full IFRS Accounting Standards are likely to have users (eg shareholders) that have information needs that differ from lenders and creditors. In particular, the shareholders of such unlisted entities might not always be the management of the entity and therefore have the same information need as shareholders in entities with public accountability.
31. In particular, as noted in paragraph 10, the primary purpose of information about the subsequent performance of business combinations is to allow users to assess management's stewardship of the entity's resources. We think this information need is no different for unlisted entities that apply full IFRS Accounting Standards compared with other entities that apply full IFRS Accounting Standards.

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32. Accordingly, we think requiring unlisted entities that apply full IFRS Accounting Standards to disclose information about the subsequent performance of business combinations has the same benefit as requiring this information more generally for other entities that apply full IFRS Accounting Standards.

Costs

33. We understand that unlisted entities that apply full IFRS Accounting Standards might have smaller finance and accounting departments than entities with public accountability. However, the management approach the IASB has tentatively decided to require for information about the subsequent performance of a business combination already scales costs for different sized entities.
34. The management approach focuses on the information the entity's key management personnel are already reviewing internally—the entity would not be required to collect and process additional information. In particular, if management of an unlisted entities that apply full IFRS Accounting Standards does not review the subsequent performance of a business combination, the entity would be required only to disclose that fact.
35. In addition, we think some of the concern about requiring unlisted entities that apply full IFRS Accounting Standards to disclose information about the subsequent performance of business combination is, in part, because the IASB's preliminary view used an entity's chief operating decision maker (CODM) to identify the business combinations and information to be disclosed. CODM is a term used in IFRS 8, which unlisted entities are not required to apply. Therefore, applying the preliminary view could increase the cost of financial reporting for unlisted entities that apply full IFRS Accounting Standards by requiring them to identify a CODM. However, the IASB has tentatively decided not to propose using CODM in this way and instead to require an entity to disclose information reviewed by an entity's key management personnel (KMP) as defined in IAS 24 *Related Party Disclosures*. Unlisted entities that apply

full IFRS Accounting Standards would not incur additional costs because they are required to apply IAS 24 and would therefore have already identified their KMP.

36. We also think identifying different populations of entities to require different items of information risks fragmenting IFRS Accounting Standards and creating confusion. Doing so could also give rise to expectations for the IASB to consider different disclosure requirements for different types of entities in future standard-setting.

Staff recommendation

37. We recommend the IASB does not exempt unlisted entities that apply full IFRS Accounting Standards from requiring an entity to disclose information about the subsequent performance of its business combinations.

Question 2—Disclosure requirements for private and unlisted entities

2. Do that IASB agree with our recommendation in paragraph 37?