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STAFF PAPER

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Project	**Goodwill and Impairment**		
Paper topic	Disclosure on the subsequent performance of business combinations		
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Purpose and structure of this paper

1. This paper provides the International Accounting Standards Board (Board) with a summary of the feedback received on improving the information an entity provides about the subsequent performance of business combinations.

2. This paper does not ask the Board for any decisions.

3. The paper contains:

   (a) Key messages (paragraphs 4–6);

   (b) Summary of the Board's preliminary views expressed in the Discussion Paper (paragraphs 7–12);

   (c) Questions asked (paragraph 13); and

   (d) Feedback received (paragraphs 14–125), including:

      (i) overall summary (paragraphs 14–23);

      (ii) the costs of providing the information identified in the preliminary views and possible approaches to overcome those costs (paragraphs 24–66);

      (iii) the location of information (paragraphs 67–76);

      (iv) the management approach (paragraphs 77–97);

(v) how long entities should continue to provide information for (paragraphs 98–114); and

(vi) other matters (paragraphs 115–125).

(e) Question for the Board.

4. Appendix A to the paper contains a summary of the feedback from the staff's fieldwork on the Board's preliminary views.

Key messages

5. Many respondents, including almost all users of financial statements (users), agreed that an entity should be required to provide additional information about the subsequent performance of business combinations and with basing that information on what an entity's management review.

6. However, many respondents, including many preparers, had concerns about the cost of providing this information. Those costs are monetary costs (for example costs of collecting and auditing the information) and proprietary costs (for example from disclosing information some consider to be commercially sensitive).

7. In addition, many respondents said information about the performance of business combinations should be provided in an entity's management commentary rather than financial statements.

Summary of the Board's preliminary views

8. During the post-implementation review of IFRS 3 *Business Combinations* users told the Board they do not get information to help them assess how well a business combination is performing after the acquisition date. Users want to know whether management's objectives for an business combination are being met. This information would help them assess management's ability to realise the expected benefits from a business combination and assess whether the business combination's subsequent performance indicates that management paid a reasonable price for the acquired business. Information about whether management's objectives are being met would allow users to assess performance and more effectively hold management to account

for its decision to acquire the business. Hence, users would use the information to assess management's stewardship of the entity's economic resources.

9. The Board's preliminary view was that it should:
   (a) replace the requirement in IFRS 3 to disclose the primary reasons for a business combination with a requirement to disclose:
      (i) the strategic rationale for undertaking a business combination; and
      (ii) management's objectives for the business combination at the acquisition date.
   (b) add a requirement to disclose:
      (i) in the year in which a business combination occurs, the metrics that management will use to monitor whether the objectives of the business combination are being met; and
      (ii) in subsequent periods, the extent to which management's objectives for the business combination are being met using those metrics, for as long as management monitors the business combination against its objectives.

What information would an entity be required to disclose?

10. The Board's preliminary view was that there is no single metric that could provide users with the information for evaluating the subsequent performance of business combinations. Entities acquire businesses to meet various objectives and entities may incorporate acquired businesses into their business in various ways.

11. Accordingly, the Board's preliminary view was that it should follow a management approach. An entity would disclose information about a business combination's subsequent performance that reflects the information and metrics the entity's management uses to monitor and measure the combination's progress against the objectives of the business combination. Management in this case is defined as the Chief Operating Decision Maker (CODM), a term used in IFRS 8 *Operating Segments*.

For what business combinations would the information be required for?

12. The management approach discussed in paragraphs 9–10 would also apply to identifying the business combinations an entity would be required to disclose this information for. An entity would be required to disclose information about subsequent performance for all business combinations that are monitored by the entity's CODM.

For how long would an entity disclose this information?

13. Applying the Board's preliminary views, an entity would be required to disclose the information about the subsequent performance of business combinations for as long as that information is provided to the CODM, but for at least the year of acquisition and two further annual financial reporting periods. If an entity's management stops monitoring the business combination during that period the entity would disclose that its management has stopped monitoring the performance of the business combination and the reasons for that.

Questions asked

14. Question 2 in the Discussion Paper asked:

> Paragraphs 2.4–2.44 [of the Discussion Paper] discuss the Board's preliminary view that it should add new disclosure requirements about the subsequent performance of an acquisition.
>
> (a) Do you think those disclosure requirements would resolve the issue identified in paragraph 2.4 [of the Discussion Paper]—investors' need for better information on the subsequent performance of an acquisition? Why or why not?
>
> (b) Do you agree with the disclosure proposals set out in (i)–(vi) below? Why or why not?
>
> (i) A company should be required to disclose information about the strategic rationale and management's (the chief operating decision maker's (CODM's)) objectives for an acquisition as at the acquisition date (see paragraphs 2.8–2.12 [of the

Discussion Paper]). Paragraph 7 of IFRS 8 *Operating Segments* discusses the term ‘chief operating decision maker’.

(ii) A company should be required to disclose information about whether it is meeting those objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives (see paragraphs 2.13–2.40 [of the Discussion Paper]), rather than on metrics prescribed by the Board.

(iii) If management (CODM) does not monitor an acquisition, the company should be required to disclose that fact and explain why it does not do so. The Board should not require a company to disclose any metrics in such cases (see paragraphs 2.19–2.20 [of the Discussion Paper]).

(iv) A company should be required to disclose the information in (ii) for as long as its management (CODM) continues to monitor the acquisition to see whether it is meeting its objectives (see paragraphs 2.41–2.44 [of the Discussion Paper]).

(v) If management (CODM) stops monitoring whether those objectives are being met before the end of the second full year after the year of acquisition, the company should be required to disclose that fact and the reasons why it has done so (see paragraphs 2.41–2.44 [of the Discussion Paper]).

(vi) If management (CODM) changes the metrics it uses to monitor whether the objectives of the acquisition are being met, the company should be required to disclose the new metrics and the reasons for the change (see paragraph 2.21 [of the Discussion Paper]).

(c) Do you agree that the information provided should be based on the information and the acquisitions a company’s CODM reviews (see paragraphs 2.33–2.40 [of the Discussion Paper])? Why or why not? Are you concerned that companies may not provide material information about acquisitions to investors if their disclosures are based on what the CODM reviews? Are you concerned that the volume of disclosures would be onerous if companies' disclosures are not based on the acquisitions the CODM reviews?

(d) Could concerns about commercial sensitivity (see paragraphs 2.27–2.28 [of the Discussion Paper]) inhibit companies from disclosing information about management's (CODM's) objectives for an acquisition and about the metrics used to monitor whether those objectives are being met? Why or why not? Could commercial sensitivity be a valid reason for companies not to disclose some of that information when investors need it? Why or why not?

(e) Paragraphs 2.29–2.32 [of the Discussion Paper] explain the Board's view that the information setting out management's (CODM's) objectives for the acquisition and the metrics used to monitor progress in meeting those objectives is not forward-looking information. Instead, the Board considers the information would reflect management's (CODM's) targets at the time of the acquisition. Are there any constraints in your jurisdiction that could affect a company's ability to disclose this information? What are those constraints and what effect could they have?

Feedback received

15. 139 comment letters provided the Board with feedback on disclosures about the subsequent performance of business combinations. The staff also performed fieldwork with eight preparers on the Board's preliminary view and participated in interviews about the Board's preliminary views with a further eight preparers. In addition, the Board received feedback in outreach meetings with other stakeholders.

16. Overall, feedback on the need for better information about subsequent performance was positive—users generally said that this information is useful for them, especially for stewardship purposes, and that they do not get this information. Many preparers said that they understand why users would need this information.

17. However, most preparers disagree with the Board's preliminary views for additional disclosures on business combinations. Many preparers said they expect the costs of

the proposed disclosures would outweigh the benefits. Paragraphs 24–66 of this paper describe the costs outlined by preparers. Those costs are monetary costs (for example costs of collecting and auditing the information) and proprietary costs (for example from disclosing information some consider to be commercially sensitive and potential litigation from disclosing information some consider to be forward-looking in nature). The most common concern raised by preparers is that they view the information described in the Discussion Paper as commercially sensitive.

18. A few preparers also said that they doubt users need or want information on the subsequent performance of business combinations. In addition, a few preparers disagreed with the Board's preliminary view because they said they already provide users with information about the subsequent performance of business combinations in management commentary or other reporting. This was most typically said by financial services entities, who said they provide information about the attainment of synergies.

19. Almost all users, responding in outreach and comment letters, said that they need information to help them assess the performance of business combinations and that they do not currently get this information. They said this would help them to hold management to account for investment decisions. A few users, in particular those following financial services entities, said they do receive information about the subsequent performance of business combinations—typically outside of financial statements.

20. Academic literature provides evidence on the conflicts of interest between shareholders and an entity's management arising from the separation of ownership and control. The academic literature agrees that providing information about an entity's performance after an acquisition is useful for informing users of whether management is generating or destroying shareholders' wealth. In a comment letter, a few academics argued that information about post-acquisition performance was critical for users and could enhance corporate governance because by being required to disclose this information, management could be encouraged to better negotiate the price of the target company.

21. At the joint Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) meeting in October 2020, a few GPF members said a requirement to provide information about the performance of business combinations might hold

management to account more effectively and so might ultimately lead to behavioural changes that improve the effectiveness of decisions about future business combinations.

22. A common area of feedback was about the location of the information about subsequent performance of business combinations. Many preparers, national standard-setters and some accounting firms and accounting bodies said that disclosures about the subsequent performance of business combinations proposed in the Discussion Paper should be included in management commentary rather than in financial statements.

23. Comment letters and participants in the fieldwork provided information about the management approach proposed in the Discussion Paper. Most agreed with a management approach but had mixed views as to whether the CODM is the right level of management. There were also mixed views about how long entities should continue to provide such information.

24. In February 2021, Company Reporting published a 'Common Practice report'[1] that looked at the disclosures on the performance of business combinations made by a sample of 12 UK entities. It found that one of that sample, an internet retailer, provided information in the format described in the Discussion Paper.

25. The remainder of this paper discusses:

(a) the costs of providing the information identified in the preliminary views and possible approaches to overcome those costs (paragraphs 24–66);

(b) the location of information (paragraphs 67–76);

(c) the management approach (paragraphs 77–97);

(d) how long entities should continue to provide information (paragraphs 98–114); and

(e) other matters (paragraphs 115–125).

[1] See https://library.croneri.co.uk/corep/2102businesscombinations

Costs of providing the information

26. Many respondents expressed concern that the costs of providing the information might outweigh the benefits for users, highlighting the following practical challenges:

    (a) commercial sensitivity (paragraphs 25–50);

    (b) forward-looking information (paragraphs 51–54);

    (c) auditability (paragraphs 55–60); and

    (d) integration (paragraphs 61–66).

Commercial sensitivity

Concerns raised by respondents

27. Commercial sensitivity is the practical barrier most commonly discussed in outreach, fieldwork and in comment letters. Some said it is a reason not to proceed with the Board's preliminary views on disclosures about the subsequent performance of business combinations. However, others agree that there is a need for such disclosures and suggest the Board consider ways to address concerns about commercial sensitivity.

28. Academic literature provides evidence of compliance levels with the disclosure requirements in IFRS 3 and IAS 36 *Impairment of Assets* in various jurisdictions. The academic literature identified that non-compliance was associated with entities unwillingness to disclose commercially sensitive information and information that revealed managers' judgement and expectations. Other academic literature suggested that factors such as quality of audit and market enforcement in a jurisdiction can moderate the level of non-compliance.

29. In discussing commercial sensitivity it is important to identify what part of the Board's preliminary views respondents consider to be commercially sensitive and why.

30. Most preparers said that they are willing to provide qualitative information about the strategic rationale and objectives in their financial statements. Most said that they often already provide this information in other published materials, for example, press releases at the time of the business combination.

31. However, some respondents said that some or all parts of the strategic rationale are commercially sensitive in some business combinations. For example, if the entity aims to acquire several targets in a row, disclosing the strategic rationale might allow competitors to identify future targets, which might make acquiring the future targets more costly or even impossible.

32. An example provided in comment letters is where an entity makes a number of acquisitions and links these together, with the strategic rationale of spotting a gap in the market and bringing together several targets. That strategic rationale might not be obvious to some external parties, and so information about it might be regarded as confidential information because disclosing it might prevent the realisation of the expected benefits.

33. One fieldwork participant provided an example of commercial sensitivity concerns related to disclosing the strategic rationale of a business combination. It noted that at the time of the business combination it prepared mock disclosures for, it disclosed that the strategic rationale for the acquisition was to maintain market position as having the largest market share. However, internally, the strategic rationale was to maintain market share to take advantage of a future technological change that management expected to significantly increase the value of the entity's products. The participant considered the expectation of a future technological change to be commercially sensitive.

34. Respondents said the information most likely to be commercially sensitive is quantitative information about management's targets for the business combination and about the achievement of those targets. They said such information is commercially sensitive for the following reasons:

    (a) an entity's competitors could use information about management's targets to calculate how the entity prices deals. That information could be used by competitors to outbid the entity in future deals. Respondents said this is a particular concern if the entity is undertaking a series of acquisitions that are strategically linked.

    (b) information about targets for an entity's cost base could reveal the entity's cost structure to competitors and customers. Competitors may use such information to outbid the entity in future tenders for sales contracts and customers may request some of that cost saving be passed on to them.

(c) if the targets relate to the number of employees, then disclosing such information could demotivate employees. In addition, in some jurisdictions there are legal requirements to inform employees or trade unions about potential redundancies before any other party, disclosing some targets might pre-empt those requirements.

35. A few users agreed with other respondents that in some circumstances they would consider information about management's targets to be commercially sensitive, for example if an entity was undertaking a series of acquisitions and disclosing targets could provide information about how the entity prices deals.

36. Some users, accounting firms, accounting bodies and national standard-setters expressed concerns that preparers would use commercial sensitivity as an excuse for not disclosing useful information about the subsequent performance of business combinations.

37. Most users said they are not asking for entities to provide information that is so detailed that it would be commercially sensitive. In addition, many users said that an entity's competitors are likely to already know much of this information because of employees moving between entities, auditors moving between firms or to clients, and from the involvement of investment banks advising on deals.

38. Agreeing with the Board, some respondents (including most users, some accounting firms, accounting bodies, regulators, and a few preparers) said that they expect preparers would be able to provide the information described in the Discussion Paper in a way that is not commercially sensitive.

39. Nevertheless, a few users said that even if the information is commercially sensitive, it should still be provided to users because they own the business and need the information to hold management to account.

40. Related to commercial sensitivity, some respondents, particularly in Europe, expressed concern about a 'level playing field' in relation to disclosures. Those respondents said that being required to disclose information about the performance of business combinations will put entities that use IFRS Standards at a disadvantage

compared to other entities, notably those reporting using US generally accepted accounting principles (US GAAP). Those respondents noted that in the US Financial Accounting Standards Board (FASB)'s Invitation to Comment *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* published in July 2019, the FASB decided against proposing disclosure requirements similar to those in the Board's Discussion Paper.

41. Some of those respondents said that being required to disclose information about management's targets at the time of the acquisition or about the subsequent performance of the business combinations could put them at a disadvantage compared to competitors not applying IFRS Standards in making bids for business if the seller does not want detailed information on the business performance disclosed to the market.

42. A few French preparers said that European entities already provide significantly more information about business combinations than entities in the US and that it would be unfair to increase the volume of disclosures.

43. One regulator suggested aligning the disclosure requirements in IFRS Standards with those in US GAAP.

44. The level playing field was also discussed at the joint CMAC and GPF meeting in October 2020. Some preparers raised a concern about the level playing field. However, some users said that the Board should focus on improving IFRS Standards—those users expected that if the Board develops disclosures similar to those in the Discussion Paper, users in the US will request the FASB to add similar disclosure requirements to US GAAP.

Suggestions to resolve commercial sensitivity concerns

45. A common suggestion for investigating concerns about commercial sensitivity is for the Board to do detailed fieldwork on its disclosure proposals, particularly with preparers. Respondents said this would allow the Board to understand in more detail what information is available and what level of information entities would be willing to provide to external market participants.

46. Some respondents said that any fieldwork should be performed with both preparers and users , to help to identify information that preparers would feel able to disclose and that would be sufficient to meet the needs of users.

47. Some respondents referred to a possible difference in expectation between users and preparers about the level of detail of the information required—some users said they need high level information that is less likely to be sensitive and those users expect preparers might be concerned that the wording in the Discussion Paper could imply that the requirement is to disclose all information reviewed by the CODM, which might include detailed and commercially sensitive information. Some respondents said that the Board should use feedback from fieldwork to develop illustrative examples of disclosures, which might help to reduce differences in the expected level of detail.

48. Some respondents, in comment letters and in fieldwork, suggested that the Board develop a framework to help entities to assess whether information is commercially sensitive.

49. Some respondents suggested how the Board should approach cases in which an entity concludes that information required is commercially sensitive:

   (a) some suggested that an entity should in that case instead be required to provide some other form of information that meets the Board's objectives. For example, one fieldwork participant suggested that the target internal rate of return could be commercially sensitive because competitors could use it to estimate how the entity prices acquisitions, but in that case an entity could instead disclose the net present value of the acquisition, which could not be used to estimate the entity's pricing strategy.

   (b) some other respondents suggested a 'comply or explain approach' that would require an entity to disclose why it regards particular information as commercially sensitive rather than to disclose the information itself. They point to an analogy in paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which does not require an entity to disclose information about provisions, contingent liabilities or assets in the extremely rare cases when disclosing that information can be expected to prejudice seriously the entity's position in a dispute with other parties. In such cases, an entity is required to disclose the general nature of the dispute, together with the fact that the information has not been disclosed and the reason why. A few respondents referred to local legislation which they said provides relief from disclosure of commercially sensitive information.

50. A few respondents, mostly preparers, said that the Board should permit entities to determine what information they disclose about the subsequent performance of business combinations rather than the Board specifying that an entity be required to disclose the information reviewed by the entity's CODM.

51. A few respondents said that the Board should specify disclosure of the strategic rationale and objectives in a qualitative fashion only.

52. A few respondents would prefer requirements that could never result in the disclosure of commercially sensitive information, rather than creating specific exemptions for information that is commercially sensitive.

Forward-looking information

53. In paragraphs 2.29–2.31 of the Discussion Paper the Board discusses whether the information that an entity would provide when applying the preliminary views is forward-looking.

54. The Board considered that the information is not forward-looking information because the information reflects management's target at the time of the business combination. It is not a forecast of the expected outcome at the time the entity prepares its financial statements.

55. Some respondents agreed with the Board's preliminary view—some regulators, national standard-setters and accounting bodies. In addition, a few regulators said that regulation in their jurisdiction encourages the provision of such information, in management commentary or financial statements, when it helps users to understand the entity's business.

56. However, many respondents disagreed with the Board's view that the information described in the Discussion Paper is not forward-looking. This includes many preparers as well as some accounting firms and national standard-setters. Those

respondents highlighted a number of definitions of forward-looking information that they said indicates that information about management's objectives and targets is forward-looking:

(a) the Board's own Practice Statement 1 *Management Commentary* defines forward-looking information as 'information about the future. It includes information about the future (for example, information about prospects and plans) that may later be presented as historical information (ie results). It is subjective and its preparation requires the exercise of professional judgement.'

(b) paragraph 3.6 of the Board's *Conceptual Framework for Financial Reporting* says that 'financial statements do not typically provide other types of forward-looking information, for example, explanatory material about management's expectations and strategies for the reporting entity', implying that information about management's expectations and strategy is forward-looking information.

(c) Canadian securities regulation[2] defines forward-looking information as 'information about prospective financial performance, financial position or cash flows, based on assumptions about future economic conditions and courses of action, and presented in the format of a historical statement of financial position, statement of comprehensive income or statement of cash flows'.

(d) preparers with a listing in the US note that the Private Securities Litigation Reform Act of 1995 in the US defines forward-looking information as follows: 'certain information provided or stated, including statements regarding future financial performance and the expectations and objectives of management, is forward-looking. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "believes," "expects," "anticipates,"

[2] 51-102 - Continuous Disclosure Obligations.

"estimates," "intends," "plans," "seeks" or words of similar meaning, or future or conditional verbs, such as "will," "should," "could" or "may".'

57. Respondents who said that the information is forward-looking said they were concerned about providing such information in financial statements because:

(a) it might result in an increased litigation or regulatory risk for an entity if management's targets are not subsequently met. In addition, some respondents said that including forward-looking information in financial statements would not allow them to benefit from 'safe harbour' protections in some jurisdictions (see paragraph 78);

(b) forward-looking information is difficult to audit.

Auditability

Concerns raised by respondents

58. Many respondents expressed concerns, including the following, about the auditability of disclosures about the subsequent performance of business combinations:

(a) it may be difficult for auditors to confirm an entity's objective and targets for a business combination because the CODM might have many objectives and targets in mind when acquiring a business. If an entity is required to disclose those objectives and targets it is likely to summarise them. Some respondents said it will be difficult for auditors to confirm that the entity is disclosing the key objectives and targets.

(b) targets and metrics are likely to be non-GAAP and may be forward-looking. Accordingly, it might be difficult for an auditor to confirm those targets are appropriate and realistic for the business combination. Those respondents said that some users may misunderstand the disclosed figures and expect that an audit confirms that the targets will be met.

(c) some respondents said that the concern is less about whether an auditor can audit management's objectives and targets and more about the cost of an audit. The costs include preparing supporting documentation in a way that is auditable and the cost of the audit itself.

59. Most accounting firms and auditing bodies did not comment on the auditability of information that would be produced by applying the Board's preliminary views in comment letters. A few participants in our outreach with accounting firms said that they expect the information to be auditable, but at a cost. In comment letters, a few accounting firms mention some specific concerns:

(a) whether an 'expectations gap' would arise if users consider that because targets have been audited, the entity will meet those targets in the future.

(b) how to audit qualitative information about the progress towards meeting a target—for example, if an entity's target is to obtain market share of 25% for a product 3 years after the acquisition date and the entity discloses that it is 'on track' at the end of the first year having obtained a market share of 23%.

(c) what the Board expects of an audit of non-financial or non-GAAP information.

Suggestions to resolve concerns

60. A few respondents said that the Board should work closely with the International Auditing and Assurance Standards Board to ensure that the information is auditable and to avoid creating an expectation that an audit confirms that management's objectives and targets will be achieved.

61. In addition, a few national standard-setters and preparers said that the Board should require an entity to disclose the basis of preparation of any 'non-GAAP' metrics. They said disclosure of the basis of preparation might help to address auditability concerns because it will allow users to better understand how metrics are calculated and will also help users hold management to account for decisions to acquire businesses. However, a few other national-standard setters said, in their view, it will be difficult for an entity to explain the basis of preparation and link these metrics to items in the financial statements in a way that is similar to the requirements described in the Exposure Draft *General Presentation and Disclosures*.

62. A few accounting firms said that the Board's preliminary views are too focused on disclosure objectives—they said that the Board will need to specify detailed requirements to ensure that the information is auditable.

63. However, a few other accounting firms said that the Board should focus on providing clear and concise disclosure objectives rather than prescribing detailed requirements that might lead to boilerplate disclosure.

Integration

Concerns raised by respondents

64. Acquired businesses are often integrated soon after acquisition. Integration can make it hard to isolate the business combination's subsequent performance and to collect useful information about the acquired business in isolation.

65. Paragraph 2.25 of the Discussion Paper notes that the Board's preliminary views follow a management approach. The Board noted that if management plans to integrate an acquired business, it is possible that management plans to monitor the subsequent performance of the business combination using information about the combined business. An entity would be required to disclose this information on the combined business because management is using this information to understand how the business combination is performing.

66. Nevertheless, many preparers and a few accounting firms expressed concerns that integration might prevent an entity from providing useful information about the subsequent performance of business combinations. In addition, some national standard-setters said that it was a common area of feedback in their jurisdiction. The concerns raised by stakeholders are that:

    (a) it may be costly or not possible to provide information about the acquired business as a stand-alone entity if it is quickly integrated into the entity's existing business.

    (b) information about the acquired business on a stand-alone basis may be misleading to users because it does not reflect the objective of the business combination.

67. A few participants in fieldwork said that, in their view, the Discussion Paper focuses on providing information about the acquired business on a stand-alone business.

68. A few national standard-setters and users said that they do not expect integration to be a problem because the entity would provide information on an integrated basis rather than for the stand-alone acquired business.

Suggestions to resolve concerns

69. A few national standard-setters and preparers acknowledged the discussion on integration in paragraphs 2.23–2.26 of the Discussion Paper. They suggested that the Board make it clear in any requirements that if management monitors the performance of the acquired business as part of an integrated unit then the entity would disclose information about the integrated unit rather than about the acquired business in isolation.

Location of information

70. Many respondents said that the Board should not require information about management's strategy, targets and the progress in meeting those targets in financial statements. Instead, this information should be provided by an entity in its management commentary, and the Board should instead consider this in its Management Commentary project.

71. Some respondents said the Board should consider permitting entities to refer to information about the subsequent performance of business combinations in management commentary, rather than in financial statements. Those respondents said that the Board could follow an approach similar to that permitted in IFRS 7 *Financial Instruments: Disclosures*, which allows an entity to avoid duplication of information required by IFRS Standards by cross-reference to 'some other statement, such as a management commentary or risk report, that is available to users on the same terms as the financial statements and at the same time.'

72. At the joint CMAC and GPF in October 2020, GPF members said that adding a suggestion in the Board's Practice Statement on management commentary that entities include information about the subsequent performance of business combinations would help, but that such a suggestion would not change an entity's behaviour.

73. Some users said that the information should be required in financial statements because the Board has no power to require the information to be provided in management commentary.

74. In addition, a few accounting firms, national standard-setters and regulators said that the information should be required in financial statements and not in management commentary so that it is located in one place rather than being included in several documents.

75. A few users said they were unconcerned as to whether the information was provided in management commentary or financial statements, as long as the information is made available.

76. Respondents suggested locating the information in management commentary for three reasons:

(a) conceptual reasons—the information is of a type that belongs in management commentary and not financial statements (paragraphs 73–74);

(b) practical reasons—placing information in management commentary helps to resolve some of the practical challenges discussed in paragraphs 24–66 of this paper (paragraph 75);

(c) to avoid duplication of information (paragraph 76).

Conceptual reasons

77. Most respondents who said information about the performance of business combinations should be included in management commentary rather than financial statements did so for conceptual reasons. Respondents said:

(a) information about management's strategy and the attainment of that strategy belongs in management commentary because it is not directly related to the reporting entity's assets, liabilities, equity, income and expenses. Those respondents noted:

(i) the objective of financial statements described in the paragraph 3.2 of the *Conceptual Framework* and the Board's Exposure Draft *General Presentation and Disclosures* is 'to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources (see paragraph 1.3).'

(ii) paragraph 3.3(c) of the *Conceptual Framework* describes the information to be provided in the notes to the financial statements, which includes information about:

1. recognised assets, liabilities, equity, income and expenses, including information about their nature and about the risks arising from those recognised assets and liabilities.
2. assets and liabilities that have not been recognised, including information about their nature and about the risks arising from them; and
3. the methods, assumptions and judgements used in estimating the amounts presented or disclosed, and changes in those methods, assumptions and judgements.

(b) paragraph 3.6 of the *Conceptual Framework* specifies when forward-looking information is included in financial statements. That paragraph says information about possible future events (forward-looking information) is included in financial statements if it:

(i) relates to the entity's assets or liabilities—including unrecognised assets or liabilities—or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period; and

(ii) is useful to users of financial statements.

(c) the information that would be disclosed applying the Board's preliminary views explains management's objectives for a business combination. The definition of management commentary in Practice Statement 1 *Management Commentary* says that management commentary serves as a basis for understanding management's objectives and its strategies for achieving those objectives. Therefore, the information described in the

Board's preliminary views is more akin to information that would be provided in management commentary.

78. Some respondents focus on the metrics and targets that management will use to monitor whether the business combination has been a success—they said that some of those metrics might be non-financial or non-GAAP measures. Those respondents said that this information in particular should not be provided in financial statements.

Practical reasons

79. Some respondents said that including information in management commentary rather than financial statements would:

(a) enable entities to benefit from 'safe-harbour' protections from litigation that some jurisdictions provide for information disclosed in management commentary but not for information disclosed in financial statements. Some respondents said that these protections are important if information about management's targets is forward-looking information.

(b) help to resolve concerns about the auditability of management's targets. Respondents particularly highlighted that it might be difficult to audit non-financial or non-GAAP information. Those respondents said that information in managment commentary is typically not audited or subject to similar level of assurance, except in some jurisdictions (for example Germany, where respondents said management commentary and financial statements are subject to the same level of assurance).

Duplication of information

80. A few respondents to the Discussion Paper said that some of the information contemplated in the Discussion Paper is already provided in management commentary and therefore is not needed in financial statements. The most common example is the strategic rationale and objectives for a business combination.

The management approach

81. The Board's preliminary view is that an entity should be required to disclose information and metrics the entity's management uses to monitor and measure the business combination's progress against management's objectives (the management approach) rather than specify metrics an entity would be required to disclose. If an entity's management is not monitoring whether its objectives for the business combination are being met, it would disclose that fact rather than the Board specify a set of minimum metrics.

82. Most respondents appreciated the Board's preliminary view to use a management approach. They said that this would reduce the cost of implementing the preliminary views, although some said that the management approach would still not reduce the costs enough for the benefits to outweigh them. In addition, a few respondents agreed that not all business combinations are entered into for the same reasons and so no single metric would provide useful information for all business combinations.

83. A few national standard-setters and accounting bodies said they would prefer the Board to specify a set of metrics for all entities to disclose rather than use the metrics used by an entity's management. Alternatively, some respondents, including some users, said that the Board should specify a minimum set of metrics to be disclosed in the case that the CODM does not review the performance of acquisitions.

84. Respondents that suggested using specific metrics, either for all business combinations or as a minimum set of metrics to add to the management approach, typically mentioned one or more of the following:

    (a) revenue growth;

    (b) operating margin;

    (c) a split between organic revenue and revenue added as a result of the acquisition;

    (d) return on investment or return on capital employed;

    (e) estimated payback period for the investment; and

    (f) information about the expected profits from and cost to achieve integration of the acquired business.

85. Some of those respondents, including some users, expressed concern that using a management approach is open to abuse, particularly if the Board use the CODM to define management. Those respondents said that management might:

    (a) amend the metrics used internally to avoid disclosing information about failing business combinations; or

    (b) push the review of detailed information on the subsequent performance of business combinations down to a level below the CODM, so that disclosure would not be required.

86. A few fieldwork participants said that a requirement to disclose information provided to the CODM would lead entities to change what is provided to the CODM so that the information then disclosed in financial statements:

    (a) presents the performance of the acquired business in a clear and concise manner; and

    (b) is subject to internal control mechanisms and so is auditable.

Is the CODM the right level of management?

87. The Board received mixed feedback on whether the CODM is the right level of management to determine the business combinations an entity is required to disclose information about and therefore what information an entity should disclose. Many respondents said that using the CODM as the threshold is a practical approach that provides a reasonable cost-benefit balance.

88. However, some respondents said that the CODM reviews information about few large business combinations that are strategically important and that using the CODM in this way might result in users not receiving all material information. They said that detailed monitoring of business combinations is performed at a level lower than the CODM—for example by the head of individual segments into which the business combination is integrated.

89. In addition, a few respondents expressed concern about the Board using the CODM in this way because it introduces an additional level of materiality. Those respondents are concerned the Board might set a precedent for future disclosure requirements.

90. Some respondents suggested the Board should require an entity to provide information about all material business combinations. The information provided by an entity would be that reviewed by the relevant person in the organisation, for example the person responsible for delivering the benefits expected from the business combination.

91. A few preparers said that the CODM in their organisation reviews information about all business combinations, including business combinations that are considered immaterial from a financial reporting perspective. Those respondents are concerned about 'disclosure overload' and said that the Board should consider the interaction between the CODM and general financial statement materiality. For example, the Board could specify that if the CODM reviews information about immaterial business combinations then such information should not be disclosed.

92. A few users expressed concern about the use of the CODM—they said that their experience of segment disclosures has been disappointing and therefore are concerned that using the CODM to identify information may not provide them with useful information.

93. A few respondents said that the Board should consider requiring disclosure of subsequent performance of only significant or fundamental business combinations—perhaps using a quantitative threshold, for example as a percentage of the entity's revenue or market capitalisation.

Feedback from fieldwork

94. Feedback from the fieldwork suggests that the amount and frequency of information about business combinations reviewed by the CODM differs in different entities.

95. All participants in the fieldwork said that there is an approval process for undertaking business combinations. Approval from the CODM is typically needed for only particularly large transactions. As part of the approval process, the CODM is provided with information on the business combinations—this varies by entity but can include a valuation of the target as a stand-alone entity, an estimate of potential synergies and a future busines plan.

96. The information provided to the CODM to approve an business combination may not continue to be provided to the CODM after completion of the business combination, if for example:

  (a) some of the possible targets identified during the business combination are not followed up;

  (b) after the business combination the CODM reviews information about the budget of the organisation as a whole rather than information included in any business plan prepared for approving the business combination; or

  (c) information for the approval of the business combination is prepared by one team (such as an M&A team) but, as is typically the case, information for the ongoing monitoring of the business, including the acquired business, is prepared by different team (such as the finance team).

97. The budget for the current year might be updated to reflect the assumptions in the business plan if the business combination is particularly large. However, in other cases the budget is not updated—any variance from budget might be explained as the effect of an business combination but that effect analysis, at least at the CODM level, will not capture whether the business combination is performing to plan. Only if there is significant variance between the unadjusted budget and actual performance would the CODM be provided with additional information. Such additional information may be available at a level lower than the CODM.

98. Some fieldwork participants said a ‘post-acquisition review’ process in their organisation takes place one to two years after a business combination. The entity reviews the assumptions made in the business plan prepared as part of the business combination and compares them with the actual outcomes. The main purpose of this review is to identify learnings from the acquisition process that can be applied to future business combinations.

99. In some entities the results of this review are provided to the CODM, but in others this report is reviewed by an investment committee rather than the CODM.

100. Respondents, and fieldwork participants, said that if the Board does decide to use the CODM as the filter for identifying the information to be disclosed in financial statements, the Board should consider specifying what type of information reviewed

by the CODM needs to be disclosed: for example, whether an entity would need to disclose only information provided to the CODM as part of regular performance monitoring, or also information provided on an ad-hoc basis and whether it includes any information obtained in the 'post-acquisition review' described in paragraph 96.

Time period

101. In the Discussion Paper the Board proposed that an entity provides information about the subsequent performance of business combinations for as long as the CODM is reviewing the performance against the objectives and targets the CODM had at the time of the business combination and as long as the information remains necessary for users to assess whether the original objectives of an business combination are being met.

102. In addition, the Board's preliminary view covered situations where the CODM stops monitoring the performance of the business combination or changes the metrics against which it monitors the business combination:

    (a) if an entity's CODM stops monitoring the business combination before the end of the second full year after the year of acquisition, the entity should be required to disclose that fact and the reasons why it stopped monitoring the business combination.

    (b) if the entity's CODM changes the metrics it uses to monitor whether the CODM's objectives for the business combination are being met, the entity should disclose the new metrics and the reasons for the change.

103. Fewer respondents commented on the time period of disclosures than commented on the costs of providing the disclosures and questions about the location of information. Their comments are summarised below as follows:

    (a) time period for disclosures (paragraphs 101–105);

    (b) stopping monitoring (paragraphs 106–108); and

    (c) changing metrics (paragraphs 109–114).

Time period for disclosures

104. The Board's approach would require disclosure about the subsequent performance for as long as the CODM monitors that performance against the CODM's initial objectives and targets. Some respondents agreed that disclosure should be required as long as the CODM is monitoring subsequent performance against the initial objectives and targets. However, a few respondents said that the Board should specify a fixed end point for disclosures, for example:

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

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

105. Some respondents said that the time period is too short because an entity is likely to be monitoring subsequent performance against initial expectations for only a short period to ensure that integration is happening successfully but, for some business combinations, success or failure might not be apparent for many years (20 years in one case the staff discussed with a fieldwork participant).

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

How long does the CODM typically review information about acquisitions for?

107. Some respondents said that the CODM reviews information about the performance of the largest acquired businesses in the entity. Respondents said that the CODM in their entity reviews such information for between two and five years. However, some other respondents said the CODM will review the performance of the business combination against the business plan developed during the acquisition process for up to one year after the business combination. After that, the business combination is monitored as part of the annual budgeting process in the entity and therefore the CODM reviews the performance against the updated budget instead of the assumptions made at the time of business combination.

108. Some fieldwork participants said that information is sometimes reported to the CODM as part of the post-acquisition reviews described in paragraph 96.

Stopping monitoring

109. Most respondents commenting agreed with the Board's preliminary view that if an entity's CODM has stopped monitoring a business combination before the end of the second full year after the year of acquisition, the entity should disclose that fact.

110. However, a few respondents said that when management is still monitoring the acquired business on an integrated basis as part of a larger business, it might not be appropriate to state that management is no longer monitoring the business combination. Those respondents were concerned that this statement would imply wrongly that management lacks internal controls.

111. Some respondents agreed with the time period of two years proposed by the Board. However, a few other respondents said the time period is:

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

    (b) too long—a few preparers said that in their organisation management monitor annual budgets and so the entity's CODM will stop comparing performance against initial expectations within one year of the business combination.

    (c) too short—respondents suggested time periods between the end of the third and fifth full year after the year of business combination.

Changing metrics

112. The Board received mixed feedback on requiring an entity to disclose whether the metrics used to monitor the performance of the business combination have changed and the reason for the change.

113. Most respondents who commented agreed with this preliminary view. This included accounting firms, accounting bodies, national standard-setters, users and preparers.

114. However, some respondents—primarily accounting bodies and national standard-setters but also a few users—expressed concern that permitting entities to change the metrics used to monitor performance would:

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

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

115. Those respondents suggested the Board consider an approach similar to that in paragraphs 29–30 of IFRS 8. Those paragraphs require an entity to restate information for reporting segments for earlier periods if it 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 would be excessive.

116. A national standard-setter asked the Board to consider a situation in which an entity changes the 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, the acquiring entity's management might change its objectives and targets from those it set during the acquisition process.

117. 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 the targets.

Other comments

118. Respondents in outreach meetings and comment letters had other comments on the Board's preliminary view:

(a) Restriction to business combinations (paragraphs 116–118);

(b) Unlisted entities (paragraph 119);

(c) Interaction with impairment requirements (paragraphs 120–122);

(d) Aggregation of business combinations (paragraphs 123–124);

(e) Interim reporting (paragraph 125).

Restriction to business combinations

119. Some respondents, mainly preparers and accounting firms, questioned why the proposed disclosures on the subsequent performance should apply to business

combinations and not also to other investments (for example in property, plant and equipment, associates and asset acquisitions) that would be of equal interest to users.

120. Some of the respondents noting this, suggested that the Board consider, as a second phase in this project, whether to expand the scope of the disclosures on subsequent performance of acquisitions to these other types of investment. A few other respondents said that disclosure of this information should continue not to be required for other investments and they saw this as a reason not to introduce such a requirement for business combinations either.

121. Some users said that information is needed in particular for business combinations because investments in business combinations tend to be more significant and attract greater risk than other types of investments.

Unlisted entities

122. Some national standard-setters and preparers said that the Board should exempt private, unlisted entities and small and medium sized entities applying IFRS Standards from a new requirement 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 access to greater 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.

Interaction with impairment requirements

123. A few respondents commented on the interaction between the Board's preliminary views on additional disclosures and the impairment test for goodwill.

124. A few accounting firms, accounting bodies and national standard-setters suggested that the Board align the level at which disclosure is provided about subsequent

performance of business combinations and the level at which goodwill is allocated to cash-generating units in the impairment test. A national standard-setter said that without this alignment, users of financial statements might miss material information about the performance of acquisitions because management might be monitoring the performance of business combinations at the cash-generating unit level rather than at the level of the CODM.

125. Some respondents suggested that the disclosures on subsequent performance of business combinations could be used as an indicator that goodwill may be impaired.

Aggregation of acquisitions

126. A few user groups said the Board should consider what an entity would be required to disclose when it acquires a series of smaller, connected businesses that are part of the same strategy. Those users said that they would be interested in the performance of such a group of business combinations, even if the CODM is not monitoring their performance in isolation.

127. In addition, a national standard-setter said that the Board should clarify whether an entity can provide information about several business combinations in aggregate.

Interim reporting

128. A few respondents suggested the Board consider what information an entity would be required to provide about the subsequent performance of business combinations in interim reporting.

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

Appendix A—feedback from fieldwork and interviews

A1. During outreach, the staff conducted fieldwork with eight preparers. In the fieldwork the participants were asked to prepare mock disclosures, applying the Board's preliminary view and to provide the staff with an understanding of how the business combinations process works.

A2. In addition, the staff participated in interviews with preparers arranged by national standard-setters. Those interviews included a discussion of the Board's preliminary views on disclosures on subsequent performance of business combinations. However, the interviews were not limited to this topic and interviewees were not asked to prepare mock disclosures.

A3. This appendix provides a summary of the feedback obtained from the fieldwork and interviews.

A4. From the fieldwork and interviews, the staff obtained an understanding of:

(a) The acquisition process (paragraphs A5–A15);

(b) The monitoring process (paragraphs A16–A27);

(c) Practical challenges applying the Board's preliminary view (paragraphs A28–A38); and

(d) Other topics (paragraph A39).

The acquisition process

A5. The acquisition process in an entity covers the process from identifying targets, valuing the target, approving a business combination and setting targets for the performance of the business combination.

Valuations

A6. All participants in fieldwork and interviews said that as part of the acquisition process, the entity estimates the amount it is willing to pay to complete a business combination. In the valuation process, most participants said that the entity estimates the value of the target business on a standalone basis and then estimates the value of synergies or other benefits that could be obtained in the business combination.

A7. These valuations essentially set a maximum price the entity is willing to pay to acquire the business. However, an entity may be willing to pay more than the estimated value of the target business if it is of additional strategic importance or when there is a competitive bidding process for the target business.

A8. In many cases, the estimates of the value of the target business are undertaken by a specialised acquisitions team in the entity, rather than undertaken by the entity's general finance department. This means that there may be different internal controls in place over the estimation of the value/expected synergies than there would be for information prepared for inclusion in the entity's financial statements.

A9. One fieldwork participant said that the entity values individual components of the target business, which can be combined to estimate a value of the target business as a whole. This might be the case where the entity is interested in a specific component of the target business.

The approval process

A10. Almost all participants said that the Chief Operating Decision Maker (CODM) approves business combinations above a particular threshold. Each entity has a different threshold, depending on its internal control process. In approving the business combination, the CODM is typically provided with a business case for the acquisition. This includes information such as the valuation of the target business, the strategic rationale and objective of the acquisition.

A11. A few participants said that there is an investment committee of some description that also reviews investments the entity makes, including business combinations. The investment committee typically reviews all proposed business combinations, including those reviewed separately by the entity's CODM.

A12. One participant said the CODM reviews all business combinations the entity makes, however, it does not make many business combinations.

Setting targets

A13. As part of the acquisition process, most participants said the entity sets targets for the performance of business combinations. The most common type of target set as part of the entity's business case are targets related to making a return—for example, internal rate of return, return on capital employed, return on equity, payback period and net present value.

A14. A few participants said that targets are linked to the entity's reported accounting balances (calculated using IFRS Standards or management performance measures) for example sales, earnings per share, operating profit and Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA). A few participants said that the targets vary depending on the business combination and can be closely linked to the objective of the business combination—for example, one participant said that the entity had a target for improving product time to market as a result of an business combination.

A15. Some participants said that the targets set out in the initial business case can change when the acquisition is completed and the entity obtains more information about the business it has acquired. For example, one participant said it can take up to six months after the business combination to develop targets based on the additional information the entity obtains about the acquired business after the business combination.

Monitoring business combinations

A16. Participants reported different methods of monitoring business combinations after acquisition. Differences occurred in the level at which the acquired business is monitored and what information is monitored. Some participants said that there is a disconnect between the information a CODM reviews as part of the acquisition process (including targets set at the time of acquisition) and the information the CODM reviews after the business combination.

A17. Some participants said that the CODM reviews information about the performance of the largest acquired businesses in the entity. Participants reported that the CODM in their entity reviews such information for between two and five years.

A18. In a few of those cases, the CODM reviews only very high-level summary information about the performance of the acquired business, with more detailed information being reviewed at a lower level or by the entity's investment committee. However, one participant said that the CODM reviews a large amount of information for all business combinations.

A19. Some participants agreed with the Board's preliminary view to base the information disclosed in financial statements about the subsequent performance of business combinations on the information reviewed by the CODM.

A20. However, some participants said that the CODM does not directly review the achievement of targets set out at the time of the business combination—either at all or on a regular basis. Some participants said that the CODM reviews the entity's budgets on a regular basis and that budgets are prepared for the entity as a whole rather than the acquired business in isolation.

A21. Most of those participants said that the entity prepares budgets on an annual basis. If the acquired business is particularly large, the budget may be adjusted in the year of acquisition to reflect the business case prepared as part of the acquisition process. However, that is not always the case. Therefore, in some situations an entity's CODM will be reviewing the performance of the combined business based on targets set at acquisition for up to a year after the business combination but for those participants, monitoring against acquisition date targets will last no longer than a year.

A22. Some participants said that the acquisition process and the subsequent monitoring of the acquired business are performed by different teams in the organisation and therefore this might explain the disconnect between the information prepared in the acquisition process and the entity's ongoing review of budgets.

A23. Some participants said that the entity reviews the performance of acquired business as part of the entity's annual impairment testing process. In those cases, the CODM reviews the value of the acquired business or the cash-generating unit into which the acquired business is integrated. If the value decreases, the CODM may conduct further investigation into the reason why the value has declined, which might include a review of detailed assumptions made at the time of the business combination.

A24. Some participants said that they have a ‘post-acquisition review’ process. This is a review of the assumptions made in the business case prepared as part of the acquisition process. Participants said that the review typically takes place one to two years after the business combination. This process is part of the entity’s internal controls and the purpose is typically to investigate whether there are lessons the entity could learn for future business combinations rather than to assess the subsequent performance of the business combination.

A25. In some cases, the results of the post-acquisition review are reported to the CODM but this is not so in other cases.

A26. Some participants in the banking industry said that they typically already disclose the progress of business combinations in their quarterly management commentary.

Would entities change the information monitored if required to apply the Board’s preliminary views?

A27. Some participants said they would change the information the CODM reviews about business combinations if the Board were to require an entity to provide the information contemplated in the Discussion Paper. An entity might change the information reviewed by the CODM so that it:

(a) is subject to more rigorous data capture and review controls. Respondents said this will help to ensure that the information is collected in a format that is auditable;

(b) is in a clear and concise format that can be shared with users.

Practical challenges

A28. Participants commented on various practical challenges the Board discussed in the Discussion Paper, including:

(a) commercial sensitivity (paragraphs A29–A32);

(b) auditability (paragraphs A33–A34);

(c) integration (paragraphs A35–A36); and

(d) forward-looking information (paragraphs A37–A38).

Commercial sensitivity

A29. Most participants said that at least some of the information required to be disclosed by the Board's preliminary view would be commercially sensitive in some circumstances. In most cases, participants identified quantified information about an entity's targets as being commercially sensitive. This could be the case:

(a) for targets that might provide competitors with information about how management have determined the price of an acquired business—for example, the target internal rate of return. This is particularly the case in situations in which the entity is planning on conducting a series of related acquisitions.

(b) if the targets provide information to the former shareholders of the acquired business that indicates the acquisition price was lower than the former shareholders might have expected. Participants said that providing information about an entity's targets for an acquired business might result in a risk of litigation from the former shareholders of the acquired business.

(c) for detailed information about synergies and where such synergies are expected to arise in the business combination. Information about targeted synergies at such a level may provide competitors, suppliers, customers and employees with information that could prevent the entity from achieving its targets.

A30. One participant said that information about management's strategic rationale could be considered commercially sensitive. That participant said at the time of the acquisition it disclosed that the strategic rationale for the acquisition was to maintain market position as having the largest market share. However, internally, the strategic rationale was to maintain market share to take advantage of a future technological change that management expected would significantly increase the value of entity's products. The participant considered the expectation of a future technological change to be commercially sensitive.

A31. Some participants in Europe expressed concern that requiring an entity applying IFRS Standards to provide this information when entities applying US GAAP are not required to provide the information could disadvantage European preparers when acquiring businesses.

A32. A few participants said that they did not consider the information that would be required applying the Board's preliminary view to be commercially sensitive. Some of those participants said they already disclose information about the subsequent performance of business combinations.

Auditability

A33. Participants had mixed views on whether the disclosures about the subsequent performance of business combinations would be auditable. Some participants said in their view the information is auditable because they have or will put in place a robust system of internal controls to collect the information. However, some of those participants said that they were concerned that auditing the information might be costly, which contributes additional cost to the preparation of financial statements.

A34. Some participants said that some of the information might be difficult to audit. In particular, participants identified information about the achievement of synergies and metrics based on management accounting or non-financial information as being potentially difficult to audit.

Integration

A35. A few participants said that, in their view, the Discussion Paper focuses on the performance of the acquired business on a stand-alone basis. Those participants said that providing information about the acquired business on a stand-alone basis would be difficult because typically acquired businesses are integrated into the existing business.

A36. Many participants said that any monitoring of the acquired business that is performed is done as part of the integrated business. If the Board were to require information to be provided about the integrated business then it would be possible to provide this information.

Forward-looking information

A37. A few participants said that in their view information about management's targets when acquiring a business is forward-looking. A few participants said it is difficult to understand the Board's distinction between targets and forecasts because management typically set feasible targets that are similar to their forecast of performance.

A38. Participants had mixed views on whether reporting forward-looking information in financial statements is a problem:

(a) a few participants said it raises litigation or regulatory risk if such information is disclosed.

(b) a few participants said that disclosing forward-looking information in financial statements is not a problem.

Other topics

A39. A few participants raised other comments in relation to the Board's preliminary views:

(a) information about the subsequent performance of a business combination will only be provided in the short-term applying the Board's preliminary view but the success of a business combination is sometimes only apparent over the long-term.

(b) the Board's preliminary views focus on business combinations but that is not the only type of large investment made by an entity. For example, participants highlighted asset acquisitions and joint ventures as being potentially large investments.

(c) providing information about whether management have met targets might be misleading if the entity does not also provide information on the cost of meeting those targets.