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## FASB | IASB Education Meeting

Date	29 September 2023
Project	<b>Business Combinations—Disclosures, Goodwill and Impairment</b>
Topic	<b>Project update</b>
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## Agenda

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# Background

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## Background

### Objective

- Improve information entities provide about their acquisitions at a reasonable cost

### Current focus

- A package of disclosure requirements about business combinations
- Changes to the impairment test of cash-generating units containing goodwill in IAS 36 *Impairment of Assets*

### Next milestone

- Publish Exposure Draft — expected in H1 2024

## The IASB's tentative decisions

	IASB's tentative decisions
Disclosures about business combinations	<ul style="list-style-type: none"><li>• Disclose performance information about strategic business combinations</li><li>• Identify information using an entity's key management personnel (KMP)</li><li>• Exempt an entity from disclosing some information in specific circumstances</li><li>• Other improvements to existing disclosures, including disclosing quantitative information about expected synergies</li></ul>
Accounting for goodwill	<ul style="list-style-type: none"><li>• Retain the impairment-only model (no amortisation)</li><li>• Simplify calculation of value in use</li><li>• Retain requirement to perform impairment test annually</li><li>• Clarifications on how an entity allocates goodwill to cash-generating units</li></ul>

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# Disclosures about business combinations

## Preliminary views

Area	Preliminary view
<b>Disclosure objectives</b>	<p>Add additional disclosure objectives to IFRS 3 that would require entities to disclose information that would help users understand:</p> <ul style="list-style-type: none"> <li>• the benefits an entity expected from a business combination when agreeing the price to acquire that business; and</li> <li>• the extent to which management’s objectives are being met</li> </ul>
<b>Performance of business combinations</b>	<p>Require entities to disclose in the year of a business combination, the strategic rationale and objectives for that business combination and the targets an entity’s Chief Operating Decision Maker plans to use to monitor achievement of those objectives</p> <p>In subsequent years, disclose management’s review of the entity’s performance against those objectives and targets</p>
<b>Expected synergies</b>	<p>Require entities to disclose in the year of a business combination quantitative information about the synergies expected as a result of the business combination</p>
<b>Other areas</b>	<p>The Discussion Paper contained other preliminary views about the disclosure requirements on business combinations, for example to improve information entities disclose about the contribution of the acquired business (sometimes called ‘pro forma’ information)</p>

## Feedback and IASB response

Feedback	IASB's response
<ul style="list-style-type: none"> <li>Information belongs in management commentary</li> </ul>	<ul style="list-style-type: none"> <li>Reconfirmed its preliminary view that the information can be required in financial statements</li> </ul>
<ul style="list-style-type: none"> <li>Information could be commercially sensitive or forward-looking</li> </ul>	<ul style="list-style-type: none"> <li>Exempt an entity from disclosing some information in specific circumstances (slide 9)</li> </ul>
<ul style="list-style-type: none"> <li>Entities might be required to disclose too much information</li> </ul>	<ul style="list-style-type: none"> <li>Require disclosure of information for only strategic business combinations (slide 10)</li> </ul>
<ul style="list-style-type: none"> <li>Concerns regarding the use of CODM to identify information to be disclosed</li> </ul>	<ul style="list-style-type: none"> <li>Require disclosure of information monitored by KMP</li> </ul>
<ul style="list-style-type: none"> <li>Concerns about how long this information would be required for</li> </ul>	<ul style="list-style-type: none"> <li>Clarify the time period for disclosing the information (slide 12)</li> </ul>
<ul style="list-style-type: none"> <li>Expected synergies can be hard to quantify and not comparable if not defined</li> </ul>	<ul style="list-style-type: none"> <li>Clarify preliminary views about expected synergies</li> </ul>



## Exemption

Preliminary view	Amended proposal
No exemption	An entity may be exempted from disclosing some information <b>if doing so can be expected to prejudice seriously an entity’s objective for a business combination</b>

Application guidance
<p>The IASB will accompany the exemption with application guidance, which will include:</p> <ul style="list-style-type: none"> <li>• Requirements—for example disclosing the reason for applying the exemption for each item of information</li> <li>• Considerations of when it is appropriate to use the exemption—for example, it would be inappropriate if that information was already disclosed elsewhere</li> </ul>

Rationale
<ul style="list-style-type: none"> <li>• Address concerns regarding harm that may be caused by commercial sensitivity that might arise from a range of sources—for example, competitors using the information</li> <li>• Address some elements of concerns regarding litigation risk—for example, if the risk arises because an entity failed to meet an objective as a result of the disclosure</li> </ul>

## Strategic business combinations

Preliminary view	Amended proposal
Require an entity disclose information about performance for business combinations that are monitored by an entity's <b>CODM</b>	Require an entity disclose information about the performance of <b>strategic</b> business combinations
Thresholds	
<b>Quantitative thresholds</b> —Revenue, operating profit or assets of acquired business constitutes at least 10% of the acquirer's comparative amounts	<b>Qualitative thresholds</b> —business combination results in entity entering a new geographical location or a new major line of business
Rationale	
<ul style="list-style-type: none"> <li>• Users will receive information about the most important business combination</li> <li>• Focusing on a subset of business combinations helps to reduce the cost of disclosing the information</li> <li>• More targeted identification of business combinations compared to the IASB's preliminary view</li> </ul>	

## Summary of key disclosure decisions

	<b>All material business combinations</b>	<b>Only strategic business combinations<sup>2</sup></b>
<b>Proposed exemption<sup>1</sup> applies</b>	In year of acquisition, quantitative information about expected synergies	In year of acquisition, information about management’s objectives and targets  Subsequently, a qualitative statement of whether actual performance met the entity’s objective and target
<b>No proposed exemption</b>	In year of acquisition, strategic rationale for undertaking the business combination	Actual performance in subsequent periods

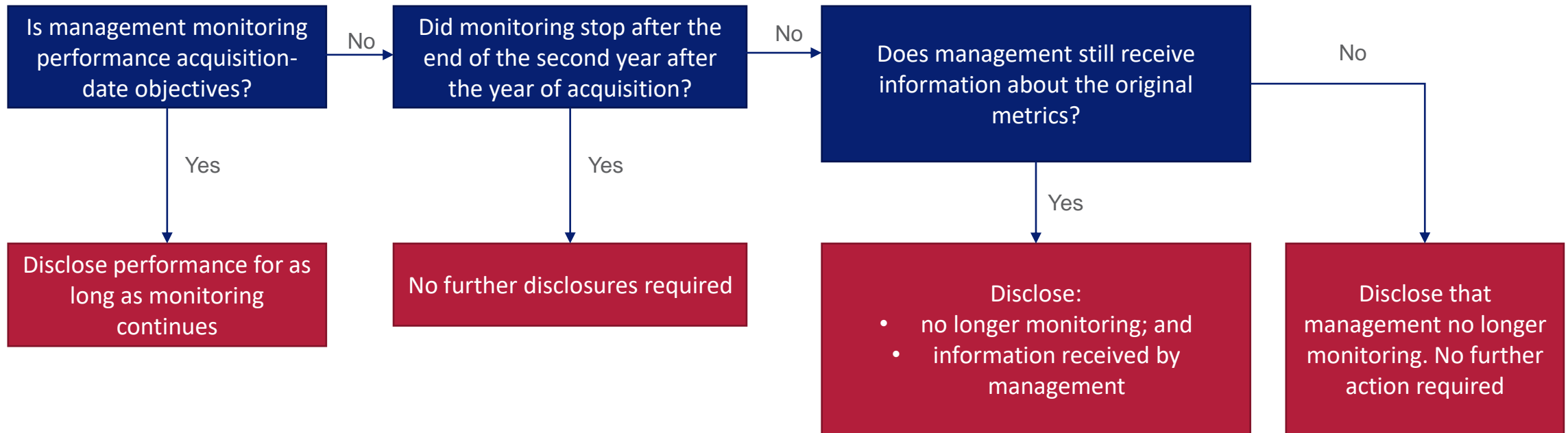
<sup>1</sup> The IASB tentatively decided to permit entities not to disclose some items of information if disclosing that item of information can be expected to prejudice seriously any of the entity’s objectives for the business combination. This principle will be supplemented with application guidance.

<sup>2</sup> The IASB tentatively decided that a strategic business combination would be a business combination for which not meeting the objectives would seriously put at risk the entity achieving its overall business strategy. To identify such business combinations, the IASB tentatively decided to propose using a closed list of thresholds.

## Duration of disclosure

In considering how long an entity should be required to disclose information about the performance of its strategic business combinations, the IASB seeks to achieve a balance between:

- Ensuring users receive information about a business combination for a reasonable amount of time; and
- Preparers not being required to disclose the information indefinitely



## Other frequently asked questions

Question	Response
<p><b>What if the acquired business is integrated with the existing business?</b></p>	<p>If integration is planned, the entity’s objectives, targets and metrics might be about the combined business rather than the acquired business in isolation</p> <p>An entity would not be required to directly attribute the performance of a combined business to pre-existing and acquired businesses</p>
<p><b>Would the information required by the IASB’s proposals be auditable?</b></p>	<p>Most auditors said the information would be auditable at additional cost. The IASB expects an auditor would be able to verify:</p> <ul style="list-style-type: none"> <li>• whether the information disclosed is information management receives to monitor the business combination; and</li> <li>• whether there is adequate explanation of how the information has been prepared</li> </ul>
<p><b>Why is the IASB requiring this information only for business combinations and not other types of transactions?</b></p>	<p>The project began in response to PIR of IFRS 3, where we heard users rely on information from impairment test to understand the success of a business combination</p> <p>Feedback from users suggests business combinations can be a riskier form of investment</p>

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# Impairment test of cash-generating units containing goodwill

## Background

Area of focus	IASB proposals
<ul style="list-style-type: none"> <li>Whether amortisation of goodwill should be reintroduced</li> </ul>	<ul style="list-style-type: none"> <li>In November 2022 the IASB decided not to explore amortisation of goodwill further</li> </ul>
<ul style="list-style-type: none"> <li>Whether the cost and complexity of the impairment test of cash-generating units (CGUs) containing goodwill can be reduced</li> </ul>	<ul style="list-style-type: none"> <li>In March 2023 the IASB tentatively decided to propose changes to how value in use is estimated</li> <li>In May 2023 the IASB tentatively decided to retain the requirement to perform the quantitative impairment test annually</li> </ul>
<ul style="list-style-type: none"> <li>Whether the impairment test can be made more effective at recognising impairment losses on goodwill on a timelier basis</li> </ul>	<ul style="list-style-type: none"> <li>In July 2023 the IASB tentatively decided to:               <ul style="list-style-type: none"> <li>Clarify the requirements for how an entity allocates goodwill to CGUs; and</li> <li>Require an entity to disclose the reportable segments in which CGUs containing goodwill are included</li> </ul> </li> </ul>

## Feedback on cost and complexity

Preliminary view	Feedback
<ul style="list-style-type: none"> <li>Remove the requirement to perform the quantitative impairment test annually</li> </ul>	<ul style="list-style-type: none"> <li>Many disagreed</li> <li>Respondents questioned extent of cost reduction and the effect on the effectiveness of the impairment test</li> </ul>
<ul style="list-style-type: none"> <li>Simplify how an entity estimates value in use by:               <ul style="list-style-type: none"> <li>allowing an entity to discount post-tax cash flows with post-tax discount rates; and</li> <li>removing restriction from including cash flows arising from future restructuring</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>General support for simplifying value in use estimations</li> <li>These simplifications will also help align accounting requirements with market practice</li> </ul>
	<ul style="list-style-type: none"> <li>Some respondents viewed the IASB having potentially conflicting goals between simplifying the impairment test and improving its effectiveness</li> </ul>



## Tentative decisions on cost and complexity

Preliminary view	Tentative decision
<ul style="list-style-type: none"> <li>Remove the requirement to perform the quantitative impairment test annually</li> </ul>	<ul style="list-style-type: none"> <li>In May 2023 the IASB decided to retain the requirement to perform the quantitative impairment test annually in IAS 36</li> <li>The IASB was persuaded by feedback on:               <ul style="list-style-type: none"> <li>The potential loss of information disclosed to users;</li> <li>The extent of any cost reduction that would result from the preliminary view; and</li> <li>The effect on the effectiveness of the impairment test</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Simplify how an entity estimates value in use by:               <ul style="list-style-type: none"> <li>allowing an entity to discount post-tax cash flows with post-tax discount rates; and</li> <li>removing restriction from including cash flows arising from future restructuring</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>In March 2023, the IASB tentatively decided to confirm preliminary views</li> <li>Propose to require use of internally consistent assumptions for cash flows and discount rates</li> <li>The IASB discussed a number of safeguards in IAS 36 that help in auditing and enforcing inclusion of cash flows from future restructuring (for example that the asset tested must be in its current condition)</li> </ul>

## Feedback on effectiveness

Preliminary view	Feedback
<ul style="list-style-type: none"> <li>• The IASB identified two broad reasons for concerns about the possible delay in recognising impairment losses on goodwill:               <ul style="list-style-type: none"> <li>• management over-optimism; and</li> <li>• shielding</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Most agreed</li> </ul>
<ul style="list-style-type: none"> <li>• Not feasible to design a different impairment test for CGUs containing goodwill that is significantly more effective at recognising impairment losses on goodwill on a timely basis than the impairment test in IAS 36 at a reasonable cost</li> </ul>	<ul style="list-style-type: none"> <li>• Most agreed</li> <li>• Some suggested different impairment tests (for example, the headroom approach)</li> <li>• Many suggested ways to improve the application and effectiveness of the test in IAS 36</li> <li>• A few said the purpose of the impairment test is misunderstood</li> </ul>

## Tentative decisions on effectiveness

### Designing a different test

- In May 2023 the IASB tentatively decided that it is not feasible to design a different impairment test from the one in IAS 36

### Reducing shielding

- In July 2023 the IASB tentatively decided to clarify the requirements on how an entity allocates goodwill to cash-generating units. For example,
  - to replace ‘goodwill is monitored for internal management purposes’ in paragraph 80(a) of IAS 36 with ‘business associated with the goodwill is monitored for internal management purposes’
  - to clarify that ‘operating segment’ in paragraph 80(b) of IAS 36 is intended to show the highest level that can be used by an entity in the impairment test when applying paragraph 80(a), not a default

### Reducing management over-optimism

- In July 2023 the IASB tentatively decided to require an entity to disclose the reportable segments in which cash-generating units containing goodwill are included
- This will give users of financial statements more visibility of what cash-generating units are which will help them better assess the assumptions disclosed

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