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## IASB<sup>®</sup> meeting

Date	<b>September 2023</b>
Project	<b>Business Combinations—Disclosures, Goodwill and Impairment</b>
Topic	<b>Transition and first-time adopters</b>
Contacts	Zicheng Wang ( <a href="mailto:zwang@ifrs.org">zwang@ifrs.org</a> )

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## Purpose and structure

1. The purpose of this paper is to ask the International Accounting Standards Board (IASB) whether it agrees with our recommendations with respect to transition requirements for the proposed amendments to IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets*.
2. This paper includes:
  - (a) summary of staff recommendations (paragraph 3);
  - (b) transition requirements for proposed amendments to IFRS 3 (paragraphs 4–28);
  - (c) transition requirements for proposed amendments to IAS 36 (paragraphs 29–51); and
  - (d) transition requirements for proposed amendments to forthcoming IFRS XX *Subsidiaries without Public Accountability: Disclosures* (Subsidiaries Standard) (paragraphs 52–56).

## Summary of staff recommendations

3. We recommend the IASB propose to:

- (a) require an entity to apply the proposed amendments to the disclosure requirements in IFRS 3 to business combinations for which the acquisition date is on or after the effective date of the amendments with earlier application permitted;
- (b) require an entity to apply the proposed amendments to IAS 36 to impairment tests on or after the effective date of the proposed amendments with earlier application permitted;
- (c) not provide a specific exemption for first-time adopters with respect to the proposed amendments to IFRS 3 and IAS 36; and
- (d) require eligible subsidiaries<sup>1</sup> to apply the proposed amendments to the Subsidiaries Standard prospectively from the effective date of those proposed amendments, with earlier application permitted.

## Proposed amendments to IFRS 3

- 4. This section is structured as:
  - (a) tentative decisions (paragraph 5);
  - (b) transition for existing IFRS preparers
    - (i) options (paragraphs 6–11);
    - (ii) costs and benefits of retrospective application (paragraphs 12–16);
    - (iii) staff conclusion (paragraph 17);
    - (iv) earlier application (paragraph 18); and
    - (v) staff recommendation (paragraph 19); and
  - (c) transition for first-time adopters (paragraphs 20–28):
    - (i) staff analysis; and

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<sup>1</sup> The term 'eligible subsidiaries' refers to an entity that meets the requirements to qualify as a 'subsidiary without public accountability' that will be set out in the new IFRS Accounting Standard Subsidiaries without Public Accountability: Disclosures.

- (ii) staff recommendation.

### ***Tentative decisions***

5. The IASB has tentatively decided to propose amending IFRS 3 to:
- (a) add disclosure objectives that would require an entity to disclose information to help users of financial statements (users) understand:
    - (i) the benefits that an entity expected from a business combination when agreeing the price to acquire a business; and
    - (ii) the extent to which an entity's objectives for a business combination are being met.
  - (b) replace the requirement in paragraph B64(d) to disclose the 'primary reasons for the business combination' with a requirement to disclose the 'strategic rationale for undertaking the business combination'.
  - (c) add a requirement for an entity to disclose for 'strategically important' business combinations information about the performance of a business combination. This would require an entity to disclose:
    - (i) in the year of acquisition management's objectives and targets for a business combination; and
    - (ii) in the year of acquisition and subsequently, actual performance in meeting those objectives and targets.
  - (d) add a requirement for an entity to disclose in the year of a business combination quantitative information about expected synergies.
  - (e) exempt an entity from disclosing some of the information required by paragraphs 5(c) and 5(d) in some situations.
  - (f) amend paragraph B64(i) to remove the term 'major' and amend the illustrative example in paragraph IE72 of IFRS 3 to encourage entities to provide users

better visibility about liabilities arising from financing activities and defined benefit pension liabilities acquired in a business combination.

- (g) replace the term ‘profit or loss’ in paragraph B64(q) with ‘operating profit or loss’ and to explain the objective of that requirement and that the calculation of the information is an accounting policy.

### ***Transition for existing IFRS preparers***

#### *Transition options*

6. As is common for transition requirements, we analysed transition requirements for the proposed amendments to IFRS 3 collectively, rather than developing specific transition requirements for each amendment.
7. Paragraph 19(b) of IAS 8 *Accounting Policies Changes in Accounting Estimates and Errors* requires an entity to apply a change in an accounting policy upon initial application of an IFRS Accounting Standard that does not include specific transitional provisions retrospectively. Accordingly, if the IASB were to not develop any specific transition requirements, an entity would apply the proposed amendments to IFRS 3 retrospectively.
8. In the context of the proposed amendments to IFRS 3, retrospective application would require an entity to apply the proposed amendments to all past business combinations. Consequently, in the year in which an entity first applies the proposed amendments, it would:
  - (a) disclose information applying the new disclosure requirements for business combinations from the earliest comparative period presented; and
  - (b) disclose information about its monitoring of the performance of business combinations that took place before the beginning of the earliest comparative period presented if management are monitoring the performance of those business combinations during the current or comparative period(s).

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9. Alternatively, the IASB could require an entity to apply the proposed amendments to IFRS 3 prospectively, either to:
- (a) all business combinations occurring on or after the effective date—this would mean that an entity would not restate comparative information for business combinations that took place during the comparative period or before.
  - (b) all business combinations occurring on or after the beginning of the earliest comparative period presented—this would mean that an entity would restate comparative information but would not disclose information about business combinations that took place before the comparative period, even if management is monitoring their performance during the comparative period.
10. Paragraph 64 of IFRS 3 requires an entity to transition to IFRS 3 prospectively to business combinations occurring on or after IFRS 3's effective date. Accordingly, we analysed prospective application in this paper in a similar way—that is prospective application of the proposed amendments to IFRS 3 in the remainder of this paper is to all business combinations occurring on or after the effective date.
11. In noting the IASB's rationale for requiring prospective application, paragraph BC432 of IFRS 3 states '...As with most other requirements that relate to particular types of transactions, applying the revised standards retrospectively would not be feasible'.

#### *Costs and benefits of retrospective application*

##### **Costs**

12. In our view, it is likely an entity will have information available to apply some of the proposed amendments retrospectively. For example:
- (a) an entity should have information about the value of liabilities arising from financing activities and defined benefit pension liabilities acquired in a business combination in the comparative period through its work during the measurement period for the business combination; and

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- (b) the IASB’s proposal to require entities to disclose information about the performance of a business combination follows a management approach and requires entities to disclose only information that exists—an entity would not be required to develop any new information.
13. However:
- (a) there might be some aspects of the proposed amendments to IFRS 3 that an entity could find difficult to apply retrospectively; for example, the IASB’s proposal would require an entity to disclose information about key—and not all—objectives for a business combination. It might be difficult for an entity to assess what objectives for a business combination it considered key retrospectively, without the use of hindsight.
- (b) although the management approach to disclosing information about the performance of a business combination would require an entity to disclose only information the entity already has, a few preparers said they might change how they monitor business combinations as a result of the IASB’s proposals (see for example, paragraph 7 of the [meeting notes](#) from the October 2020 meeting between the Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF)) and assess whether any changes to internal controls might be needed to allow them to disclose the information in financial statements. Such changes will result in entities disclosing more useful information and improve the auditability and enforceability of the proposed amendments. Requiring entities to retrospectively apply the proposed amendments might not provide entities with sufficient time to update their internal controls and processes.

**Benefits**

14. Retrospective application would mean that an entity would be required to disclose information in the comparative periods for business combinations that:

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- (a) took place before the beginning of the comparative period but for which management was still monitoring at least one key objective and target at the beginning of the comparative period; and
  - (b) took place in the comparative period.
15. Some of this information might be useful—for example, we think information about the contribution of the acquired business would be useful in the comparative period to expand the trend analysis users are able to perform with the information (in a different context, paragraph 50(c) of [Agenda Paper 18B](#) to the IASB’s April 2021 meeting notes that a few users said the IASB should require information about the contribution of the acquired business to be disclosed for comparative periods).
16. However, information about business combinations that occurred before and during the comparative period might not always provide useful information:
- (a) users might not get a complete picture of the performance of a business combination, for example:
    - (i) if a business combination occurs before the earliest comparative period presented but management stopped monitoring all of the key objectives for that business combination during the comparative period, in the comparative period an entity would disclose no information or only that management stopped monitoring that business combination and the reason why<sup>2</sup>; or
    - (ii) if a business combination occurs before the comparative period and management are monitoring some but not all key objectives in the comparative period, users will get information about some of the key objectives but might not get a complete picture of the performance of the business combination. For example, because a key objective had been achieved (or failed to be achieved) before the comparative period

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<sup>2</sup> Applying the IASB’s tentative decisions, an entity would be required to disclose that it stopped monitoring its key objectives for a business combination and the reason why if it stops monitoring its key objectives for the business combination before the end of the second full year after the year of the business combination.

and is no longer monitored a user would receive no information about that key objective and target.

- (b) some of the information the IASB proposed requiring an entity to disclose is to enable users to understand the benefits that an entity expected from a business combination when agreeing the price to acquire a business. For example, quantitative information about expected synergies and information about the entity's key objectives and targets for the business combinations. Users might find this information less relevant for business combinations that occurred in prior periods than for business combinations that occurred in the current period because that information would be less timely and users will have already made their assessments about the price paid for the business combination in those earlier periods. That information might still have some relevance because it would provide context for any subsequent information and can help users assess management's track record in undertaking business combinations.

#### *Staff conclusion*

17. Having considered the costs and benefits of applying the amendments retrospectively, we think the IASB should propose to require an entity to apply the proposed amendments to IFRS 3 to business combinations for which the acquisition date is on or after the effective date of the amendments.

#### *Earlier application*

18. If an entity has the required information and would like to disclose that information earlier than required, we see no reason to prevent the entity from doing so. In particular, users say this information is needed for business combinations.

#### *Staff recommendation*

19. Based on our analysis, we recommend the IASB propose to:



- (a) require an entity to apply the proposed amendments to IFRS 3 to business combinations for which the acquisition date is on or after the effective date of the amendments; and
- (b) allow early application of the proposed amendments to IFRS 3.

**Question 1—Proposed amendments to IFRS 3—Transition for existing IFRS preparers**

1. Does the IASB agree with our recommendations in paragraph 19?

***Transition for first-time adopters******Staff analysis***

20. Paragraph C1 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* states that a first-time adopter may elect not to apply IFRS 3 retrospectively to past business combinations. This effectively permits an entity not to apply the recognition and measurement requirements in IFRS 3 to business combinations that occurred before the entity's date of transition to IFRSs.
21. However, paragraph 20 of IFRS 1 states:

This IFRS does not provide exemptions from the presentation and disclosure requirements in other IFRSs.
22. Paragraph BC27 of IFRS 1 explains:

The Board expects that most first-time adopters will begin planning on a timely basis for the transition to IFRSs. Accordingly, in balancing benefits and costs, the Board took as its benchmark an entity that plans the transition well in advance and can collect most information needed for its opening IFRS balance sheet at, or very soon after, the date of transition to IFRSs.
23. We think applying the principle described in paragraph BC27 of IFRS 1 resolves concerns about the availability and costs of preparing the information on transition to

the proposed amendments (see paragraphs 12–13) for a first-time adopter. This is because entities are assumed to have planned their transition to IFRS Accounting Standards so that they can collect and document the information needed to be disclosed. We think also that entities will have documented their key objectives for a business combination in preparation of the first-time adoption of IFRS Accounting Standards and accordingly, this information would not be subject to hindsight.

24. However, concerns about the usefulness of the information that would be disclosed applying the proposed amendments retrospectively (see paragraphs 14–16) would also apply to first-time adopters.
25. In deciding transition requirements for first-time adopters, the IASB needs to weigh whether to depart from the general principle in paragraph 20 of IFRS 1 in relation to disclosure requirements and propose different transition requirements for the proposed amendments to IFRS 3.
26. Alternatives to the general principle could be to require a first-time adopter to disclose information about the performance of a business combination only for business combinations that occur:
  - (a) after the date of transition to IFRSs—this would result in an entity disclosing information about business combinations that occur in the comparative period and subsequently; or
  - (b) in the first IFRS reporting period and subsequently—this would result in transition requirements for first-time adopters similar to our recommended transition requirements for current IFRS preparers (see paragraph 19).
27. On balance we think the IASB should not propose relief for first-time adopters from any of the proposed amendments to IFRS 3 because:
  - (a) first-time adopters are expected to plan their transition to IFRS with sufficient time and consequently, concerns about the availability and cost of preparing the information for existing IFRS preparers do not exist for first-time adopters;

- (b) this approach would be consistent with the approach the IASB has taken to other IFRS 3 disclosure requirements, including requirements in IFRS 3 that require an entity to disclose information in a subsequent period about a transaction that occurred previously. For example, IFRS 1 does not provide a first-time adopter with relief from applying paragraph B67(b) of IFRS 3, which contains disclosure requirements related to contingent consideration; and
- (c) although we accept the information about past business combinations is less useful than for business combinations in the first IFRS reporting period and subsequently, that information is still useful.

*Staff recommendation*

28. We recommend that the IASB not propose relief for first-time adopters with respect to the proposed amendments to IFRS 3.

Question 2—Proposed amendments to IFRS 3—First-time adopters

2. Does the IASB agree with our recommendations in paragraph 28?

## Proposed amendments to IAS 36

29. This section is structured as:
- (a) tentative decisions (paragraph 30);
  - (b) transition for existing IFRS preparers
    - (i) transition options (paragraphs 31–36);
    - (ii) costs and benefits of retrospective application (paragraphs 37–43);
    - (iii) staff conclusion (paragraph 44);
    - (iv) earlier application (paragraphs 45–46); and
    - (v) staff recommendation (paragraph 47); and

- (c) first-time adopters (paragraphs 48–51):
  - (i) staff analysis; and
  - (ii) staff recommendation.

### ***Tentative decisions***

30. The IASB has tentatively decided to amend IAS 36 to:
- (a) change how an entity calculates value in use (VIU) by:
    - (i) removing a constraint on cash flows used to calculate VIU. An entity would no longer be prohibited from including cash flows arising from future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance;
    - (ii) removing the requirement to use pre-tax cash flows and pre-tax discount rates in calculating VIU;
  - (b) clarify how an entity allocates goodwill to a cash-generating unit or group of cash-generating units; and
  - (c) require an entity to disclose:
    - (i) the reportable segments in which cash-generating units containing goodwill are included; and
    - (ii) whether a pre-tax or a post-tax discount rate was used in calculating VIU.

### ***Transition for existing IFRS preparers***

#### *Transition options*

31. Similar to our analysis of the transition requirements for the proposed amendments to IFRS 3 and as is common for transition requirements, we analysed transition

- requirements for the proposed amendments to IAS 36 collectively, rather than developing specific transition requirements for each amendment.
32. As noted in paragraph 7, if the IASB does not specify transition requirements paragraph 19(b) of IAS 8 would require an entity to apply the proposed amendments to IAS 36 retrospectively. This would require an entity to:
- (a) reperform past impairment tests to reassess the recoverable amount of assets, including cash-generating units containing goodwill, at the effective date of the amendments to IAS 36; and
  - (b) disclose information about the reportable segment in which cash-generating units containing goodwill are included for the comparative period.
33. Paragraph 139 of IAS 36 requires an entity to apply the Standard to goodwill and other intangible assets acquired in a business combination for which the agreement date is on or after a specific date (that is prospectively).
34. Paragraphs BC212–214 of IAS 36 explain that in developing the transition requirements in paragraph 139 of IAS 36, the IASB considered whether entities should be required to apply the revised impairment test for cash generating units containing goodwill retrospectively. The IASB concluded that:
- (a) retrospective application would be problematic because:
    - (i) retrospective application was likely to be impossible in many cases because the information needed may not exist or may no longer be obtainable; and
    - (ii) retrospective application would require an entity to determine estimates that would have been made at a prior date, and therefore raise the problem of how the effect of hindsight could be separated from the factors existing at the date of the impairment test; and
  - (b) the requirement to test goodwill impairment annually, irrespective of whether there is any indication that it may be impaired, will ensure that by the end of

the first period in which the IAS 36 is effective, all recognised goodwill acquired before its effective date would be tested for impairment.

35. When developing the transition requirements for IAS 36, the IASB considered whether to include a transitional goodwill impairment test whereby an entity would perform the impairment test only at the date of transition and any changes to the carrying value of the assets would be recognised directly in equity.
36. Paragraphs BC216–226 of IFRS 3 discuss whether to require a transitional impairment test at the date of application. The benefit of performing a transitional impairment test is that users would be able to tell whether an impairment expense results from the changes to how the impairment test is performed or because of an impairment event in the year. The IASB decided not to require a transitional impairment test because in the view of the IASB, it would be rare that an impairment loss would be recognised on transition and the cost would outweigh the benefit.

#### *Costs and benefits of retrospective application*

##### **Costs**

37. We think, in some cases, the information needed to apply the proposed amendments to IAS 36 retrospectively would be available, for example, some entities said:
- (a) they already use post-tax rate and cash flows in calculating VIU; and
  - (b) they already disclose in which reportable segment a cash-generating unit containing goodwill is included (see paragraph 74 of [Agenda Paper 18B](#) to the July 2023 IASB meeting).
38. However, some other items of information might not be available, for example the basis used in a prior period for judgements on whether to include or exclude cash flows arising from future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance.

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39. Applying the proposed amendments retrospectively would require an entity to assess whether any increase in the recoverable amount of a cash-generating unit containing goodwill results in the reversal of a prior impairment of goodwill. IAS 36 prohibits the recognition of a reversal of goodwill impairment losses and so an entity would need to perform an impairment test at all reporting dates since the acquisition of the goodwill, rather than just an impairment test at the date of transition to ascertain the correct carrying value of the goodwill. Detailed forecasts for cash-generating units that goodwill is allocated to might not be available for all of those past periods.

### *Benefits*

40. Some of the proposed amendments to IAS 36 would provide no additional information to users if applied retrospectively. In particular, removing the requirement to use pre-tax cash flows and pre-tax discount rates in calculating VIU gives entities the option of using two methods to calculate VIU. In paragraph BC94 of IAS 36 the IASB observed that, conceptually, discounting post-tax cash flows at a post-tax discount rate and discounting pre-tax cash flows at a pre-tax discount rate would be expected to give the same result. Therefore, applying the proposed amendments to that aspect of IAS 36 retrospectively would be expected to result in no change to the measurement of assets.
41. As noted in paragraph 34(b), an entity is required to perform an impairment test of cash-generating units containing goodwill annually.<sup>3</sup> This means that by the end of the reporting period the assets in a cash-generating unit containing goodwill, will be carried at no more than their recoverable amount. The analysis of the IASB when applied to past transition requirements noted in paragraph 34(b) remains appropriate for this aspect of the proposed amendments to IAS 36.
42. However, the amendments to VIU discussed in paragraph 30 of this paper would apply not only to cash-generating units or groups of cash generating units containing

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<sup>3</sup> In [May 2023](#) the IASB tentatively decided to retain this requirement.

goodwill but also to assets and other cash-generating units. Some of those assets and cash-generating units are tested for impairment only when there is an indicator of impairment (paragraph 9 of IAS 36) or an indicator of a reversal of impairment (paragraph 110 of IAS 36). The carrying amount of these assets and cash-generating units might not be updated by the end of the reporting period the proposed amendments are applied in.

43. We considered whether the IASB should require an entity to perform a transitional impairment test (see paragraphs 35–36). However, we think the cost of performing a transitional impairment test are the same for the proposed amendments as they would have been when the IASB considered introducing such a test previously. We have not obtained sufficient information in this project that would suggest the benefits of transitional impairment test for the proposed amendments to IAS 36 would be higher for these amendments than when the IASB previously considered such a test. Accordingly, we think the IASB should not require an entity to perform a transitional impairment test.

#### *Staff conclusion*

44. Having considered the costs and benefits of applying the amendments retrospectively, we think the IASB should propose to require an entity to apply the proposed amendments to IAS 36 prospectively to impairment tests on or after their effective date.

#### *Earlier application*

45. Similar to paragraph 18, we see no reason to prevent an entity from applying the proposed amendments earlier than the effective date.
46. We also think the entity would be able to apply the proposed amendments to IAS 36 without applying the proposed amendments to IFRS 3 and so we see no reason to link the earlier application of these two amendments.



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*Staff recommendation*

47. As a result of our analysis in paragraphs 31–46, we recommend the IASB:
- (a) requires an entity apply the proposed amendments to IAS 36 to impairment tests prospectively to impairment tests on or after the effective date with earlier application permitted; and
  - (b) does not link the early application of the proposed amendments to IFRS 3 and IAS 36.

**Question 3—Proposed amendments to IAS 36—Transition for existing IFRS preparers**

3. Does the IASB agree with our recommendations in paragraph 47?

***First-time adopters****Staff analysis*

48. A first-time adopter is required to apply IFRS Accounting Standards in preparing and presenting an opening IFRS statement of financial position at the date of transition to IFRSs (paragraph 6 of IFRS 1). IFRS 1 contains no exemptions from applying IAS 36 in preparing that opening IFRS statement of financial position.
49. In addition, if a first-time adopter does not apply IFRS 3 retrospectively, paragraph C4(g)(ii) of IFRS 1 requires an entity to apply IAS 36 in testing goodwill for impairment at the date of transition to IFRSs and in recognising any resulting impairment loss in retained earnings (or, if so required by IAS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to IFRSs.
50. We see no reason to propose a specific transition exemption for first-time adopters in relation to the proposed amendments to IAS 36, given a first-time adopter would be required to apply all other aspects of IAS 36 in preparing an opening IFRS statement of financial position.

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*Staff recommendation*

51. We recommend the IASB does not propose a specific transition exemption for first-time adopters in relation to the proposed amendments to IAS 36.

**Question 4— Proposed amendments to IAS 36—First-time adopters**

4. Does the IASB agree with our recommendations in paragraph 51?

**Proposed amendments to the Subsidiaries Standard**

52. Following the IASB's tentative decision in [July 2023](#), and if the IASB agrees with our recommendations in Agenda Paper 18A to this meeting, the IASB will propose to amend the Subsidiaries Standard to require eligible subsidiaries to disclose:
- (a) quantitative information about expected synergies, subject to the same exemption proposed for an entity applying IFRS 3 in this project;
  - (b) the strategic rationale for undertaking a business combination; and
  - (c) whether the discount rate used in calculating value in use is pre-tax or post-tax.
53. Similar to the proposed amendments to IFRS 3 and IAS 36, we analysed transition requirements for the proposed amendments to the Subsidiaries Standard collectively, rather than developing specific transition requirements for each amendment.
54. In paragraphs 19 and 47 we recommend entities be required to apply the proposed amendments to IFRS 3 and IAS 36 prospectively, with earlier application permitted.
55. We think our analysis and recommendations for the proposed amendments to IFRS 3 and IAS 36 are applicable to proposed amendments to the Subsidiaries Standard. We see no reason to propose different transition requirements for eligible subsidiaries for the proposed amendments summarised in paragraph 52.

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56. Accordingly, we recommend the IASB propose to require eligible subsidiaries to apply the proposed amendments to the Subsidiaries Standard prospectively from the effective date of those proposed amendments, with earlier application permitted.

Question 5— Proposed amendments to the Subsidiaries Standard

5. Does the IASB agree with our recommendations in paragraph 56?