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Submitted via website

Brussels, 1 July 2024

**Subject: Exposure Draft: Business Combinations—Disclosures, Goodwill and Impairment**

Dear Mr. Barckow,

Dear Mr. Klinz,

We are pleased to respond to the International Accounting Standards Board (IASB or the Board) Exposure Draft: Business Combinations—Disclosures, Goodwill and Impairment as well as the EFRAG Draft Comment Letter (DCL) thereon.

As explained below, we are not convinced that the new proposals will appropriately address the main concerns related to Goodwill impairment. We believe this is a missed opportunity in this regard.

**IFRS 3 BUSINESS COMBINATIONS**

**SUBSEQUENT PERFORMANCE OF BUSINESS COMBINATIONS**

We generally support the IASB's objective to provide users with relevant information to help them assessing the subsequent performance of important business combinations.

**THRESHOLDS**

We have some reservations whether the proposed "strategic" approach is the most appropriate choice in order to capture the relevant subset of business combinations for which additional disclosures should be given.

Apart from our reservations against the "strategic" approach in general, we also do not agree with the proposed thresholds approach as it is currently designed. We favour a more principle-based approach. In our view the quantitative and qualitative thresholds should be used in conjunction with a rebuttable presumption such that entities can evaluate whether a business combination qualifies as a strategic business combination based on a set of principles and supplement the evaluation with quantitative thresholds as guidelines. Management should

be able to demonstrate the absence of any strategic attribute from business combinations that would otherwise be qualified as “strategic” using only the IASB thresholds approach.

## **LOCATION OF INFORMATION**

As per IFRS 18 Presentation and Disclosure in Financial Statements, the notes should provide additional information to better understand the items in the primary financial statements and help achieve the objective of the financial statements. Therefore, we do not support disclosing non-financial Key Performance Indicators (KPIs) in the financial statements. We also challenge the incorporation of forward-looking information into these disclosures. We believe that management commentary is better suited to host these non-financial KPIs and forward-looking disclosures.

## **EXEMPTION**

We support the introduction of this exemption. However, as things currently stand, we are sceptical regarding its enforcement. We are not convinced by the IASB rationale that led to disqualifying litigation risks from using the exemption (apart from those litigation risks arising from disclosure that resulted in the entity being unable to meet the business combination’s key objectives.)

## **DISCLOSURES – OTHER PROPOSALS**

Although “key management personnel” (KMP) is a known concept, we wonder whether it was necessary to specifically indicate that KMP are those who are reviewing the key objectives and related targets of strategic business combinations. As explained further in our detailed letter, we see these requirements related to KMP as redundant.

We disagree with the new quantitative disclosure related to expected synergies in the year of acquisition. This information is complicated to quantify on a non-arbitrary basis and poses practical challenges in the absence of an application guidance. We strongly suggest instead a narrative description about synergies.

We also disagree with considering the proforma basis of preparation as an accounting policy. Because their preparation will highly depend on the unique circumstances of each business combination and the varying quality of information obtained in each one, it is difficult to establish an accounting policy and to apply it consistently.

## **IAS 36 IMPAIRMENT OF ASSETS**

### **MANAGEMENT OVER-OPTIMISM AND SHIELDING**

We are not convinced that the new proposals will appropriately address shielding. We regret that the IASB has not gone further. In our detailed letter, we provide some additional suggestions for the Board’s consideration including to further explore alternative methods to allocate Goodwill at lower levels (such as the US GAAP concept of reporting units).

We disagree with the IASB that management over-optimism is better dealt with by enforcers and auditors. Those charged with governance are the first group responsible for the correctness of financial information, including the reasonableness of assumptions used for the measurement of Goodwill impairment.

### **VALUE IN USE**

We generally welcome the IASB’s proposed simplification of the value in use calculation. However, we still ask the IASB to add guidance on the meaning of “post-tax” (e.g. with regard to treatment of deferred tax assets on tax loss carry forwards).

We kindly refer to Annex 1 and Annex 2 of this letter for our detailed responses.

Please do not hesitate to contact Nael Braham ([nael@accountancyeurope.eu](mailto:nael@accountancyeurope.eu)) in case of any questions or remarks.

Sincerely,



Olivier Boutellis-Taft

Chief Executive Officer

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## ANNEX 1: IASB ED – QUESTIONS FOR RESPONDENTS

We are pleased to present below our detailed responses to the questions raised in the IASB’s Exposure Draft (ED) on Business Combinations—Disclosures, Goodwill and Impairment.

### Question 1 - Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 3)

*In the PIR of IFRS 3 and in responses to the Discussion Paper the IASB heard that:*

- *users need better information about business combinations to help them assess whether the price an entity paid for a business combination is reasonable and how the business combination performed after acquisition. In particular, users said they need information to help them assess the performance of a business combination against the targets the entity set at the time the business combination occurred (see paragraphs BC18–BC21).*

- *preparers of financial statements are concerned about the cost of disclosing that information. In particular, preparers said the information would be so commercially sensitive that its disclosure in financial statements should not be required and disclosing this information could expose an entity to increased litigation risk (see paragraph BC22).*

*Having considered this feedback, the IASB is proposing changes to the disclosure requirements in IFRS 3 that, in its view, appropriately balance the benefits and costs of requiring an entity to disclose this information. It therefore expects that the proposed disclosure requirements would provide users with more useful information about the performance of a business combination at a reasonable cost.*

*In particular, the IASB is proposing to require an entity to disclose information about the entity’s acquisition-date key objectives and related targets for a business combination and whether these key objectives and related targets are being met (information about the performance of a business combination). The IASB has responded to preparers’ concerns about disclosing that information by proposing:*

- *to require this information for only a subset of an entity’s business combinations—strategic business combinations (see question 2); and*

- *to exempt entities from disclosing some items of this information in specific circumstances (see question 3).*

*(a) Do you agree with the IASB’s proposal to require an entity to disclose information about the performance of a strategic business combination, subject to an exemption? Why or why not? In responding, please consider whether the proposals appropriately balance the benefits of requiring an entity to disclose the information with the costs of doing so.*

*(b) If you disagree with the proposal, what specific changes would you suggest to provide users with more useful information about the performance of a business combination at a reasonable cost?*

- (1) We support the IASB’s objective to provide users with relevant information to help them assess the subsequent performance of important business combinations. However, we have concerns about defining a subset of “strategic” business combinations requiring additional disclosures and about the content of some of the proposed disclosures.
- (2) As per IFRS 18 Presentation and Disclosure in Financial Statements, the notes should provide additional information to better understand the items in the primary financial statements and help achieve the objective of the financial statements. Therefore, we do not support disclosing non-financial Key Performance Indicators (KPIs) as proposed by the ED. We also challenge the incorporation of forward-looking information into these disclosures. We believe that the management commentary is better suited to host these non-financial KPIs and disclosures. We suggest that the IASB explores this topic in its Management Commentary Project. We acknowledge that not all jurisdictions require all companies to publish an annual report in parallel with their financial statements, consequently an alternative solution would need to be found for such circumstances.
- (3) Finally, we strongly encourage field-testing the new disclosures requirements. This might confirm areas of concern such as preparers’ ability to produce this information, their relevance to users and their auditability.

## Question 2 - Disclosures: Strategic business combinations (proposed paragraph B67C of IFRS 3)

*The IASB is proposing to require an entity to disclose information about the performance of a business combination (that is, information about the entity's acquisition-date key objectives and related targets for the business combination and whether these key objectives and related targets are being met) for only strategic business combinations—a subset of material business combinations. A strategic business combination would be one for which failure to meet any one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy.*

*The IASB is proposing that entities identify a strategic business combination using a set of thresholds in IFRS 3—a business combination that met any one of these thresholds would be considered a strategic business combination (threshold approach) (see paragraphs BC56–BC73).*

*The IASB based its proposed thresholds on other requirements in IFRS Accounting Standards and the thresholds regulators use to identify particularly important transactions for which an entity is required to take additional steps such as providing more information or holding a shareholder vote. The proposed thresholds are both quantitative (see paragraphs BC63–BC67) and qualitative (see paragraphs BC68–BC70).*

*(a) Do you agree with the proposal to use a threshold approach? Why or why not? If you disagree with the proposal, what approach would you suggest and why?*

*(b) If you agree with the proposal to use a threshold approach, do you agree with the proposed thresholds? Why or why not? If not, what thresholds would you suggest and why?*

- (4) We understand the IASB's pragmatic approach in using thresholds to identify strategic business combinations. This approach is practical and easier to operationalise than an open-list approach.
- (5) The entity's strategy is by definition drawn up by the entity's management. Therefore, the IASB's newly introduced concept of "Strategic Business Combinations" implies a management approach. In our view, this might create a contradiction between the identification of strategic business combinations using a threshold approach and the management's own classification of that same transaction.
- (6) We have some reservations whether the proposed "strategic" approach is the most appropriate choice in order to capture the relevant subset of business combinations for which additional disclosures should be given.
- (7) We favour a more principle-based approach. In our view the quantitative and qualitative thresholds should be used in conjunction with a rebuttable presumption such that entities can evaluate whether a business combination qualifies as a strategic business combination based on a set of principles and supplement the evaluation with quantitative thresholds as guidelines. Management should be able to demonstrate the absence of any strategic attribute from business combinations that would otherwise be qualified as such using only a thresholds approach. The ED quantitative thresholds should be viewed as floor limits.
- (8) In that respect, we are not convinced by the wording used to characterise a "strategic business combination in BC54. We do not believe that the failure to meet any one of an entity's acquisition-date key objectives would necessarily lead to a serious risk of failure in achieving the entity's overall business strategy. Apart from that, if the Board intends this characteristic to be part of the "strategic" definition, as the wording in BC54 suggests, it should be included in the definition in B67C.
- (9) Nevertheless, based on the EFRAG 2023 [Survey](#), only a very few business combinations will be captured by these thresholds. If the Board decides to pursue the thresholds approach, we recommend to further test these thresholds to ensure they are set at the right level and fit for purpose.
- (10) We are particularly concerned that the threshold related to Operating Profit or Loss could be arbitrary as profitability is subject to fluctuation from year to year. Consequently, in a lower profitability period, an increased number of business combinations would likely qualify as strategic solely because of meeting the profitability threshold. To mitigate this, we suggest the IASB requires the use of a normalised threshold of Operating Profit or Loss based for instance, on an average from a specified number of years. Furthermore, we strongly

recommend adding guidance on how to operationalise the profitability criterion in case of loss-making acquirers and/or acquirees.

- (11) The IASB should also clarify how to apply both the Operating Profit or Loss and the Revenue thresholds if the acquiree previously did not report under IFRS. In this case, additional information would need to be prepared to compare like with like. Since the level of precision required in obtaining this information (high level vs. full IFRS conversion) might influence whether a threshold is met or not, we ask the IASB to specify how to derive these figures under cost benefit considerations.
- (12) On the other hand, we have some reservations with regards to the application of the qualitative criterion (c) in B67C. It is currently unclear how sequential purchases of companies should be treated, as explained in the below examples:
- a. when an entity acquired a small company which is in a different line of business, and subsequently acquire a second larger company in that same line of business. The first acquisition doesn't necessitate disclosures because it is immaterial. The second one would sidestep the "new line of business" trigger because of the first immaterial acquisition.
  - b. a series of business combinations might individually not meet the thresholds and thus not be strategic but to the extent that management pursued these acquisitions as part of a single overall strategy, they should - collectively - be considered as a new line of business or new markets, thus are qualitatively strategic.

We recommend the IASB consider the complexity of a "thresholds only approach" as illustrated in the above scenarios and the merits of combining it with a rebuttable presumption approach.

- (13) Finally, we welcome the clarification in BC53 that the proposed thresholds are not substitutes to the materiality assessment. However, we suggest the IASB integrates this clarification into the core text of the Standard (and not keep it in the BC). Emphasising the materiality assessment by giving it prominence in the core text of the Standard might avoid misinterpretation (e.g., that entry into a new geographical area that is incidental to an otherwise immaterial business combination should not automatically make it a strategic business combination.)

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### Question 3 - Disclosures: Exemption from disclosing information (proposed paragraphs B67D–B67G of IFRS 3)

*The IASB is proposing to exempt an entity from disclosing some of the information that would be required applying the proposals in this Exposure Draft in specific circumstances. The exemption is designed to respond to preparers' concerns about commercial sensitivity and litigation risk but is also designed to be enforceable and auditable so that it is applied only in the appropriate circumstances (see paragraphs BC74–BC107).*

*The IASB proposes that, as a principle, an entity be exempt from disclosing some information if doing so can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives for the business combination (see paragraphs BC79–BC89). The IASB has also proposed application guidance (see paragraphs BC90–BC107) to help entities, auditors and regulators identify the circumstances in which an entity can apply the exemption.*

*(a) Do you think the proposed exemption can be applied in the appropriate circumstances? If not, please explain why not and suggest how the IASB could amend the proposed principle or application guidance to better address these concerns.*

*(b) Do you think the proposed application guidance would help restrict the application of the exemption to only the appropriate circumstances? If not, please explain what application guidance you would suggest to achieve that aim.*

- (14) In our [Comment Letter](#) to the Discussion Paper, we emphasised the importance of striking the right balance between the benefits of disclosures to investors and respecting the commercial sensitivity of those disclosures. We understand the compromise between users' needs and preparers' concerns that led the Board to introduce this exemption. In this respect, we support the introduction of this exemption.
- (15) We expect this exemption to be commonly used in practice by management. As things currently stand, we are sceptical regarding the enforcement of this exemption even with the application guidance of paragraphs B67-B67G. In particular, we question the usefulness of the extra step of demonstrating whether an attempt of aggregating the information did not result in mitigating the existing risks.
- (16) We are not convinced by the IASB rationale laid out in BC82-BC85 that led to disqualifying litigation risks from using the exemption, apart from those litigation risks arising from disclosure that resulted in the entity being unable to meet the business combination's key objectives. Prohibiting the application of the exemption to these circumstances could expose entities to significant legal risks that might turn out to be a driver for business decisions and prevent transactions.
- (17) In addition, we call for clarification in the core text of the Standard on the scope of the exemption concerning synergy disclosures. It is not clear whether the exemption applies as well to qualitative information on synergies. Whereas BC87(c) explicitly limits the exemption to "quantitative information about expected synergies", B67D refers generally to subparagraph B64(ea), which apart from the quantitative disclosures in (i) to (iii) also includes "... a description of the expected synergies that specifies each category of expected synergies ...". This requirement should be clarified.

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**Question 4 – Disclosures: Identifying information to be disclosed (proposed paragraphs B67A–B67B of IFRS 3).**

*The IASB is proposing to require an entity to disclose information about the performance of the entity's strategic business combinations (that is, information about its acquisition-date key objectives and related targets for a strategic business combination and whether these key objectives and related targets are being met) that is reviewed by its key management personnel (see paragraphs BC110–BC114).*

*The IASB's proposals would require an entity to disclose this information for as long as the entity's key management personnel review the performance of the business combination (see paragraphs BC115–BC120).*

*The IASB is also proposing (see paragraphs BC121–BC130) that if an entity's key management personnel:*

- *do not start reviewing, and do not plan to review, whether an acquisition-date key objective and the related targets for a business combination are met, the entity would be required to disclose that fact and the reasons for not doing so;*
- *stop reviewing whether an acquisition-date key objective and the related targets for a business combination are met before the end of the second annual reporting period after the year of acquisition, the entity would be required to disclose that fact and the reasons it stopped doing so; and*
- *have stopped reviewing whether an acquisition-date key objective and the related targets for a business combination are met but still receive information about the metric that was originally used to measure the achievement of that key objective and the related targets, the entity would be required to disclose information about the metric during the period up to the end of the second annual reporting period after the year of acquisition.*

*(a) Do you agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel? Why or why not? If not, how do you suggest an entity be required to identify the information to be disclosed about the performance of a strategic business combination?*

*(b) Do you agree that:*

*(i) an entity should be required to disclose information about the performance of a business combination for as long as the entity's key management personnel review that information? Why or why not?*



*(ii) an entity should be required to disclose the information specified by the proposals when the entity's key management personnel do not start or stop reviewing the achievement of a key objective and the related targets for a strategic business combination within a particular time period? Why or why not?*

- (18) We question whether it is necessary to specify the level of management at which the acquisition-date key objectives and related targets of a strategic business combination are reviewed. The fact that such objectives and targets are being reviewed within the management hierarchy should be sufficient to lead to continued and consistent disclosure. Although “key management personnel” (KMP) is a known concept, we believe there is no added value in specifying a certain management level once the strategic, i.e., most important business combinations are identified.
- (19) We are in favour of setting a backstop date for the additional disclosures to be provided even if they are still being reviewed by management. In practice, the acquired business is often integrated in a relatively short period into the acquirer's operations. Consequently, we think prolonged disclosures of the acquisition-related objectives and targets would provide only limited benefits to users.

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#### Question 5 -Disclosures: Other proposals

*The IASB is proposing other amendments to the disclosure requirements in IFRS 3.*

*These proposals relate to:*

*New disclosure objectives (proposed paragraph 62A of IFRS 3)*

*The IASB proposes to add new disclosure objectives in proposed paragraph 62A of IFRS 3 (see paragraphs BC23–BC28).*

*Requirements to disclose quantitative information about expected synergies in the year of acquisition (proposed paragraph B64(ea) of IFRS 3)*

*The IASB proposes:*

- *to require an entity to describe expected synergies by category (for example, revenue synergies, cost synergies and each other type of synergy);*
- *to require an entity to disclose for each category of synergies:*
- *the estimated amounts or range of amounts of the expected synergies;*
- *the estimated costs or range of costs to achieve these synergies; and*
- *the time from which the benefits expected from the synergies are expected to start and how long they will last; and*
- *to exempt an entity from disclosing that information in specific circumstances.*

*See paragraphs BC148–BC163.*

*The strategic rationale for a business combination (paragraph B64(d) of IFRS 3)*

*The IASB proposes to replace the requirement in paragraph B64(d) of IFRS 3 to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for the business combination (see paragraphs BC164–BC165).*

*Contribution of the acquired business (paragraph B64(q) of IFRS 3)*

*The IASB proposes to amend paragraph B64(q) of IFRS 3 to improve the information users receive about the contribution of the acquired business (see paragraphs BC166–BC177). In particular, the IASB proposes:*

- *to specify that the amount of profit or loss referred to in that paragraph is the amount of operating profit or loss (operating profit or loss will be defined as part of the IASB's Primary Financial Statements project);*
- *to explain the purpose of the requirement but add no specific application guidance; and*
- *to specify that the basis for preparing this information is an accounting policy.*

*Classes of assets acquired and liabilities assumed (paragraph B64(i) of IFRS 3)*

*The IASB proposes to improve the information entities disclose about the pension and financing liabilities assumed in a business combination by deleting the word 'major' from paragraph B64(i) of IFRS 3 and*



*adding pension and financing liabilities to the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3 (see paragraphs BC178–BC181).*

*Deleting disclosure requirements (paragraphs B64(h), B67(d)(iii) and B67€ of IFRS 3)*

*The IASB proposes to delete some disclosure requirements from IFRS 3 (see paragraphs BC182–BC183).*

*Do you agree with the proposals? Why or why not?*

- (20) We support the overall disclosures objectives. Nevertheless, we reiterate our remarks related to forward-looking information in paragraphs 1-3 above.
- (21) We do not agree with the proposed quantitative disclosures about synergies. The new required disclosures about synergies in the year of acquisition are complicated to quantify on a non-arbitrary basis. Based on our experience, it cannot be assumed that this information is automatically gathered in the deal process, thus we question this requirement also under cost benefit considerations. Furthermore, we are concerned that there could be a lack of common understanding about how to identify and quantify synergies. For example, it remains unclear from the proposal if synergies are meant to include only those the acquirer paid for (i.e., that reconcile to the consideration transferred) or the total of expected synergies which might be higher. Also, the amount of expected synergies could differ based on the point in time they are calculated due to different levels of information (pre-closing vs. post-closing). This could lead to inconsistent application and diversity in practice. As a consequence, we are concerned that entities would frequently use the exemption to avoid this disclosure. Instead, we strongly suggest a narrative disclosure about expected synergies. In case the Board decides to retain these requirements, we strongly recommend including application guidance to mitigate the risks of diversity and inconsistent application.
- (22) We disagree with considering the proforma basis of preparation as an accounting policy. Because their preparation will highly depend on the unique circumstances of each business combination and the varying quality of information obtained in each one, it is difficult to establish an accounting policy and to apply it consistently. Moreover, as business combinations are significantly different from one another, we see little benefit from comparing the proforma information between them.

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#### Question 6 – Changes to the impairment test (paragraphs 80–81, 83, 85 and 134(a) of IAS 36)

*During the PIR of IFRS 3, the IASB heard concerns that the impairment test of cash generating units containing goodwill results in impairment losses sometimes being recognised too late.*

*Two of the reasons the IASB identified (see paragraphs BC188–BC189) for these concerns were:*

- *shielding; and*
- *management over-optimism.*

*The IASB is proposing amendments to IAS 36 that could mitigate these reasons (see paragraphs BC192–BC193).*

*Proposals to reduce shielding*

*The IASB considered developing a different impairment test that would be significantly more effective at a reasonable cost but concluded that doing so would not be feasible (see paragraphs BC190–BC191).*

*Instead, the IASB is proposing changes to the impairment test (see paragraphs 80–81, 83 and 85 of IAS 36) to reduce shielding by clarifying how to allocate goodwill to cash generating units (see paragraphs BC194–BC201).*

*Proposal to reduce management over-optimism*

*The IASB's view is that management over-optimism is, in part, better dealt with by enforcers and auditors than by amending IAS 36. Nonetheless, the IASB is proposing to amend IAS 36 to require an entity to disclose in which reportable segment a cash generating unit or group of cash-generating units containing goodwill is included (see paragraph 134(a) of IAS 36). The IASB expects this information to provide users with better information about the assumptions used in the impairment test and therefore allow users to better assess whether an entity's assumptions are over-optimistic (see paragraph BC202).*

*(a) Do you agree with the proposals to reduce shielding? Why or why not?*

*(b) Do you agree with the proposal to reduce management over-optimism? Why or why not?*

- (23) We support the clarifications to the existing requirements (paragraphs 80-80B of IAS 36). However, we are not convinced that the new proposals will appropriately address shielding. We regret that the IASB has not gone further to address this situation, and we believe this is a missed opportunity. We believe that additional illustrative examples (or implementation guidance) will help understand how these changes address shielding. We suggest the Board:
- Provides an appropriate methodology on how goodwill should be allocated to CGUs. We also invite the IASB to continue to explore alternative methods to allocate Goodwill at lower levels (such as the US GAAP concept of reporting units).
  - Considers including the clarifications referred to in IAS 36 BC 142 into the core text of the standard.
  - Clarifies the meaning of “business associated with goodwill” as the term business could be misunderstood to relate to the business acquired according to IFRS 3.
- (24) We support the proposed disclosure of the reportable segment in which a (group of) CGU(s) containing goodwill is included. However, we disagree with the IASB that management over-optimism is better dealt with by enforcers and auditors, we believe that those charged with governance are the first group responsible for the correctness of financial information, including the reasonableness of assumptions used for the measurement of goodwill impairment.

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**Question 7 - Changes to the impairment test: Value in use (paragraphs 33, 44–51, 55, 130(g), 134(d)(v) and A20 of IAS 36)**

*The IASB is proposing to amend how an entity calculates an asset’s value in use. In particular, the IASB proposes:*

- *to remove a constraint on cash flows used to calculate value in use. An entity would no longer be prohibited from including cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset’s performance (see paragraphs BC204–BC214).*

- *to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. Instead, an entity would be required to use internally consistent assumptions for cash flows and discount rates (see paragraphs BC215–BC222).*

*(a) Do you agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset’s performance? Why or why not?*

*(b) Do you agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use? Why or why not?*

- (25) We generally welcome the IASB’s proposed simplifications to the Value In Use calculation.
- (26) However, we renew the concerns raised in our Comment Letter on the DP to retain the requirement to test an asset (or CGU) in its current condition, which does not allow to include cash flows improving the capacity of a CGU in the value in use calculation. On the one hand, a removal of the constraint without additional guidance on how to differentiate between cash flows supporting current vs. supporting future assets may increase diversity in practice. On the other hand, it also limits the benefits intended from this relief since business plans typically do not differentiate along these categories, so that manual adjustments solely for impairment testing purposes will still be required. We also suggest making it clear that any uncommitted future cash flows associated with improving an asset should always be supported by adequate evidence.

- (27) We draw the Board’s attention that the wording in IAS 36.44A(a) “[e] Estimates of future cash flows of an asset in its current condition include: (a) future cash outflows necessary to maintain the level of economic benefits expected to arise from the asset in its current condition” seems to be misleading and too restrictive. In calculating the estimates of future cash flows of an asset in its current condition, an entity might not necessarily plan to maintain the level of economic benefits from an asset. Therefore, we believe this restriction should be removed.
- (28) We support the IASB’s intention to allow post-tax calculations. However, we still encourage the IASB to add guidance on the meaning of “post-tax” (e.g. with regard to treatment of deferred tax assets on tax loss carry forwards) to minimise the likelihood of different interpretations and support a consistent application.

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**Question 8—Proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures**

*The IASB proposes to amend the forthcoming IFRS X Subsidiaries without Public Accountability: Disclosures (Subsidiaries Standard) to require eligible subsidiaries applying the Subsidiaries Standard to disclose:*

- *information about the strategic rationale for a business combination (proposed paragraph 36(ca) of the Subsidiaries Standard);*
- *quantitative information about expected synergies, subject to an exemption in specific circumstances (proposed paragraphs 36(da) and 36A of the Subsidiaries Standard);*
- *information about the contribution of the acquired business (proposed paragraph 36(j) of the Subsidiaries Standard); and*
- *information about whether the discount rate used in calculating value in use is pretax or post-tax (paragraph 193 of the Subsidiaries Standard).*

*See paragraphs BC252–BC256.*

*Do you agree with the proposals? Why or why not?*

- (29) We have no strong views regarding the disclosure requirements for subsidiaries without public accountability. Our previous remarks are generally also valid for these requirements.
- (30) We also draw to the Board’s attention that the population to which they apply are rather limited. The information about these significant business combinations will be disclosed in the consolidated financial statements of the group.

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**Question 9—Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard)**

*The IASB is proposing to require an entity to apply the amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively from the effective date without restating comparative information. The IASB is proposing no specific relief for first-time adopters. See paragraphs BC257–BC263.*

*Do you agree with the proposals? Why or why not? If you disagree with the proposals, please explain what you would suggest instead and why.*

- (31) We do not agree with the IASB on the absence of specific relief for first time adopters. First time adopters should not be held to a higher standard than existing preparers.

## ANNEX 2: EFRAG DCL – QUESTIONS TO CONSTITUENTS

We are pleased to provide below our detailed responses to the questions to constituents in EFRAG's DCL on Business Combinations—Disclosures, Goodwill and Impairment.

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### Question to Constituents (paragraph 39-41 of the DCL)

*Do you consider there are cases that do not fall within the scope of the exemption where providing the proposed performance information can be so commercially sensitive that would pose a serious concern if disclosed in the financial statements? If so, please provide examples of these cases and explain why you would be unable to use the exemption.*

*Do you consider there could be business combinations for which providing integrated performance information will be useful to users of financial statements? If not, please provide examples of such cases and what specific changes to the proposed disclosures you suggest.*

*Do you consider that providing information on actual performance per paragraphs B67A (b) (i) and (ii) will be useful in all cases? If not, please provide examples when either of these proposed disclosures would not be useful and why.*

Please refer to paragraphs 14-17 above.

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### Question to Constituents (paragraph 68-71 of the DCL)

*Do you expect to have difficulties in applying either the proposed quantitative or the qualitative thresholds? If so, please explain why.*

*Have you identified cases where applying an open-list approach would be more appropriate than the proposed closed-list approach? If so, please explain.*

*Do you consider there could be cases where the 10% measure proposed for the quantitative thresholds (based on the acquirer's consolidated operating profit, revenue and total assets) would not be appropriate, as it would still capture small business combinations (if 10% is too low) or omit to capture "strategic" acquisitions (if 10% is too high)?, If so, in which cases and which other measure would you propose?*

*Do you consider it useful to have guidance on assessing whether a series of business combinations could in aggregate be strategic?*

Please refer to paragraphs 10-12 above.

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### Question to Constituents (paragraph 92 of the DCL)

*Do you consider that the IASB should suggest further application guidance and/or include illustrative examples to clarify the meaning of the "specific circumstances" that the exemption would be applied? If so, what application guidance or illustrative examples would you suggest?*

Please refer to paragraphs 14-17 above.

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### Question to Constituents (paragraph 115 of the DCL)

*Do you consider the proposed level of KMP to be appropriate? If not, which level would you consider to be appropriate and why?*

Please refer to paragraphs 18-19 above.

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### Question to Constituents (paragraph 155 - 157 of the DCL)

*Do you expect to have difficulties in providing quantitative information on expected synergies in the year of acquisition? If so, please explain why.*

*Do you consider the IASB should define “synergies” or provide additional guidance on the types of synergies for which entities are expected to provide quantitative information?*

*Do you consider that the financial statements to be the right location to provide quantitative information on expected synergies? If not, please explain why and where the information should be provided.*

Please refer to paragraphs 20-21 above.

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### Question to Constituents (paragraph 163-164 of the DCL)

*Do you agree with the IASB’s proposal to specify that the basis of preparation of the information on the contribution of the acquired business is an accounting policy? Please explain.*

*Have you identified any difficulties with providing/auditing the information in the current requirement in paragraph B64(q) of IFRS 3? If so, please explain and provide alternatives that the IASB should consider?*

Please refer to paragraph 22 above.

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### Question to Constituents (paragraph 186-188 of the DCL)

*Do you agree with EFRAG’s preliminary view that the last sentence of proposed paragraph 80A(b) in IAS 36 raises concerns around ambiguity and if so, do you agree with EFRAG’s recommendation to delete the last sentence of that paragraph? If you do not agree, please explain why?*

*Do you agree with the request for further disclosure requirements when goodwill is being reallocated in subsequent periods? Why, or why not?*

*In the interest of ensuring that goodwill is allocated at the lowest level possible, would you consider important for the IASB to provide guidance where the level of allocation is considered too high, and thus unacceptable, regardless of whether that level represents a business unit that has benefited from the acquisition’s synergies?*

Please refer to paragraphs 23-24 above. We support EFRAG’s request to delete the last sentence of paragraph 80A (b) to reduce the risk of ambiguity.

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### Question to Constituents (paragraph 203-206 of the DCL)

*Do you agree with the EFRAG feedback in paragraph 197 and 202 to the questions raised by the IASB?*

*Do you agree with the recommendations related to (a) the first sentence in paragraph 44A(a) of the ED, and (b) the need for additional guidance on the boundary of an asset? Why or why not?*

*Do you agree with the requested additional disclosures on the extent to which the estimated value in use is influenced by the inclusion of uncommitted future restructurings and asset enhancements, where such an inclusion represent a significant amount of the calculated value in use? Why or why not?*

*Do you see a need for additional guidance in how to treat taxes, including deferred taxes, in the calculation of value in use? If so, what kind of guidance is needed?*

Please refer to paragraphs 25-28 above.

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### Question to Constituents (paragraph 216 of the DCL)

*Do you agree with the IASB’s proposed disclosure requirements for eligible subsidiaries applying the Subsidiaries Standard? If not, please refer to the specific disclosures and describe your concerns.*

Please refer to paragraphs 29-30 above.

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Question to Constituents (paragraph 243-244 of the DCL)

*Do you consider there could be aspects of the proposed disclosures on performance information and expected synergies for business combinations (Question 1 and Question 5 of the ED) that might pose a serious concern if disclosed in the financial statements and why? If yes, please explain (i) why you would not be able to apply the proposed exemption (Question 3 of the ED) and (ii) where you suggest the information should be provided and why?*

*Do you consider that entities (other than subsidiaries) without public accountability should be granted relief from the proposed new package of disclosure requirements? If so, please explain which disclosures and why.*

Please refer to paragraphs 29-30 above. We reiterate our comments about forward-looking information in paragraphs 2 and 20 above.