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Our Ref: 2024/O/C1/IASB/PM/695

**RE: Exposure Draft: Business Combinations–Disclosures, Goodwill and Impairment
Proposed amendments to IFRS 3 and IAS 36**

Dear International Accounting Standards Board (“IASB” or “the Board”) Members,

The International Organization of Securities Commissions (“IOSCO”) Committee on Issuer Accounting, Audit and Disclosure (“Committee 1”) thanks you for the opportunity to provide our comments on the Exposure Draft: *Business Combinations–Disclosures, Goodwill and Impairment - Proposed amendments to IFRS 3 and IAS 36*.

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 (“members” or “we”) seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General observations:

Overall, we strongly support the IASB’s objectives to provide users more useful information about the performance of an entity’s business combinations and improve the effectiveness of the impairment test. We believe the proposed disclosure objective in paragraph 62A of IFRS 3 clearly articulates the type of information users require to better assess the performance of an entity’s business combinations and how efficiently and effectively the entity’s management has used the entity’s economic resources to acquire businesses. The proposed disclosure objective also supports other key stakeholders in the financial reporting ecosystem, such as audit committees or those charged with governance (TCWG), external auditors and regulators in fulfilling their

1

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respective roles. We also believe the proposed requirement in IFRS 3 for an entity to disclose information about the entity’s acquisition-date key objectives and related targets for strategic¹ business combinations support the proposed disclosure objective. However, we are concerned that certain proposed requirements will prevent the disclosure objective from ultimately being achieved. We are also concerned that the proposed amendments will not achieve the IASB’s objective to improve the effectiveness of the impairment test. In that regard, we do not believe the proposed amendments address the issue of “too little, too late” when recognizing impairment losses as discussed in the IOSCO report “*Recommendations on Accounting for Goodwill*.”² In this regard, we want to highlight our responses to the proposed amendments in the following areas:

- Exemption from some disclosure requirements (Question 3)
- Evaluation of the subsequent performance of a business combination (Question 4)
- Improving the effectiveness of the impairment test (Question 6)
- Removing the constraint on future restructuring and asset enhancement cash flows (Question 7)

We believe the IASB should continue to explore proposals in these areas that will be more effective at meeting the information needs of users and welcome further dialogue with the IASB to achieve that aim. In this regard, we believe the IASB should consider separating its proposals to expand business combination disclosures from its impairment test changes to allow the IASB to finalize its proposed changes to the business combination disclosure requirements in a timely manner and still allow the Board additional time to explore proposals that would improve the effectiveness of the impairment test. Additionally, we believe the IASB should explore expanding the recognition of intangible assets as part of its research project on Intangible Assets to help address the issue of shielding.

Responses to the Board’s Questions:

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

¹ As explained in our response to Question 2, we believe the IASB remove the term “strategic” to describe business combinations that are within the scope of the proposed disclosure requirements.

² See [IOSCO Recommendations on Accounting for Goodwill](#) (December 2023).



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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?

Response:

We conditionally agree with the IASB's proposal to require the disclosure of information about the performance of a strategic business combination. Our agreement is conditioned on the IASB's response to our feedback on



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the proposed exemption to the disclosure requirements (Question 3) and the proposal that would limit the subsequent performance disclosures to the second annual reporting period after the year of acquisition (Question 4). We believe the requirement for an entity to disclose information about the performance of a subset of business combinations in the financial statements will improve transparency of financial reporting by providing relevant information to users. Additionally, we believe the costs to produce this information would not be significant since the proposed disclosure would reflect information the acquirer's key management personnel uses to review and measure the success of a business combination, which is often prepared and used for internal purposes and in some instances included in investor presentations. However, we are concerned that application of the exemptions may result in a disclosure package that does not meet the disclosure objective in paragraph 62A of IFRS 3.

Exemption from some disclosure requirements:

Some members disagree with the scope of the proposed exemption from disclosing certain information in paragraph B67D of IFRS 3. These members acknowledge the exemption was designed primarily to respond to preparers' concerns about commercial sensitivity as described in paragraph BC81. However, as described further in our response to Question 3, these members have concerns with the practical application and enforceability of the proposed exemption. Some members believe the exemption, as proposed, could be applied too broadly, resulting in the disclosures by the acquirer in a business combination not meeting the disclosure objective in paragraph 62A of IFRS 3.

Evaluation of the subsequent performance of a business combination:

As described further in our response to Question 4, for the disclosure objective in paragraph 62A(b) of IFRS 3 to be met, we believe that users need information to assess the subsequent performance of business combination during the time period the acquirer expects to achieve its acquisition-date key objectives and related targets, which may extend beyond the second annual reporting period after the year of acquisition.

Interaction of the proposed disclosures and the Conceptual Framework for Financial Reporting:

While we support the IASB's objective to provide users more useful information about the performance of an entity's business combinations, we note the IASB's proposal for entities to provide information about acquisition-date key objectives, related targets and expected synergies requires disclosure that some, but not all members, may view as forward-looking information. Therefore, we suggest the IASB address the interaction of the proposed disclosures in IFRS 3 with paragraph 3.6 of the IASB's Conceptual Framework in the Basis for Conclusions (as it is not currently addressed in BC140) to provide clarity on what may be perceived by some stakeholders as an inconsistency between the proposed disclosure requirements and this paragraph when focused solely on the last sentence in this paragraph, which states, "Financial statements do not typically provide other



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types of forward-looking information, for example, explanatory material about management's expectations and strategies for the reporting entity.”

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?

Response:

We agree with the proposal to use a threshold approach to identify a subset of business combinations for which an entity would be required to disclose certain information. We believe this approach achieves the appropriate balance between the benefits to users and the related costs of requiring an entity to disclose information about business combinations and significantly increases enforceability of the proposal in support of the overall disclosure objective. We believe the proposed qualitative threshold is important to capturing those business

5



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combinations that do not meet the quantitative thresholds but are nonetheless considered of significant value to the entity.

We generally agree with the proposed thresholds. We believe a higher threshold than 10% would most likely lead to the loss of important information for users. We note the thresholds provided in paragraphs B67C of IFRS 3 are consistent with thresholds set in many jurisdictions to require a listed entity to provide additional information about the business combination to its users, as well as with the thresholds in IFRS 8. However, in some circumstances, we believe the proposed quantitative thresholds may result in the disclosure of information about business combinations that is not considered material when applying paragraph 7 of IAS 1, for example, when an acquirer with an operating profit or loss at or near break-even determines the operating profit or loss of its acquiree meets the quantitative threshold in applying paragraph B67C(a)(i) of IFRS 3. We note, as described in BC54, that in applying the proposals an entity would still assess whether each item of information it is required to disclose is material. However, we have observed that in practice, some preparers and practitioners believe that when quantitative thresholds are met, the related disclosures are always required. While we believe that disclosures required upon meeting a quantitative threshold can generally be presumed to be material, we suggest that the reference in BC54 to the assessment of materiality could be included as an illustrative example or application guidance to clarify that irrespective of whether a business combination meets any of the proposed thresholds, an entity would still apply paragraph 7 of IAS 1 to determine whether an item of information is material in the context of the financial statements taken as a whole. Additionally, as described further below, we believe the IASB should address inconsistencies between the descriptions of a strategic business combination in the application guidance and the Basis for Conclusions.

We also note the description of a strategic business combination in paragraphs BC54 and BC55 appears to be inconsistent with the proposed thresholds in paragraph B67C of IFRS 3. For example, an entity may consider a business combination that meets the quantitative threshold in paragraph B67C (a) – (c) of IFRS 3 as one for which failure to meet any one of an entity’s acquisition-date key objectives would not put the entity at serious risk of failing to achieve its overall business strategy as described in BC54 and BC55. We disagree with a view that this apparent inconsistency should be addressed through the removal of the proposed quantitative threshold because the stated intent of the IASB in BC54 and BC55 was to capture business combinations that are considered qualitatively significant. We believe the quantitative threshold not only aids in the enforceability of the proposal, but importantly, is a significant contributor towards the overall objective to provide more useful information to users. Therefore, we believe the IASB should remove the description of a strategic business combination in BC54 and BC55 to eliminate this inconsistency. Additionally, we believe the IASB should modify paragraphs B67A through B67C of IFRS 3 to remove the term “strategic” to describe business combinations that are in the scope of the disclosure requirements and alternatively, characterize the disclosure requirements as applying to business combinations that meet any one of the proposed thresholds in paragraph B67C of IFRS 3 to provide additional clarity that the scope of the disclosure requirements applies to business

6

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combinations that may not be qualitatively strategic but meet the quantitative threshold or vice versa. Additionally, we suggest the IASB consider adding illustrative examples or application guidance to make it clear how the threshold approach should be applied. This may include an example to illustrate the factors an entity would consider in determining qualitatively whether it entered a “new major line of business” and/or “geographical area of operations.” In developing such an example, the IASB may consider Example 8 of IFRS 5 IG that illustrates how an entity would consider whether an asset has been abandoned in applying paragraphs 13 and 14 of IFRS 5. In addition, we believe an example that illustrates a business combination in which the qualitative threshold is not met but the quantitative threshold is met would be helpful to clarify that such a circumstance would still result in meeting the proposed thresholds in IFRS 3.

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.

Response:



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Some members believe the proposed exemption cannot be applied in the appropriate circumstances because of how broadly paragraph B67D of IFRS 3 could be interpreted, while other members believe it can be interpreted to apply to a narrow set of circumstances. We believe this potential difference in interpretations highlights the importance of modifying the proposed exemption or providing application guidance and/or illustrative examples to ensure consistent application and enforceability of the “prejudice seriously” concept in paragraph B67D of IFRS 3.

Those members who believe the proposed exemption can be applied broadly acknowledge the principle underpinning the proposed exemption is similar to the approach in paragraph 92 of IAS 37. However, in applying proposed paragraph B67D of IFRS 3, these members believe the determination of whether disclosure of an item of information can be expected to “prejudice seriously” the achievement of any of the acquirer’s acquisition-date key objectives for the business combination, is not objectively determinable in some circumstances. These members believe this is likely to result in enforceability issues, for example, in assessing an entity’s conclusion regarding whether its competitors can be expected to use the information to prevent the entity from meeting any of its acquisition-date key objectives for the business combination, as described in the example in BC81(a). In contrast, we note the exemption in paragraph 92 of IAS 37 can be applied only to “extremely rare cases” that involve a “dispute with other parties,” which would likely be supported by litigation that is in process related to the subject matter of the provision, contingent liability or contingent asset to which the exempted information relates. Therefore, these members suggest the IASB modify the proposed application guidance to apply to commercially sensitive information when a legal matter or regulatory requirement prevents an entity from disclosing a particular item of information, or when due to a legal matter, disclosing a particular item of information can be expected to prejudice seriously the achievement of any of the entity’s acquisition-date key objectives for the business combination. Additionally, these members believe the IASB should remove the example in BC81(a) of when an entity may elect not to disclose an item of information based on an expectation of how its competitors may use the information. In the IASB’s consideration of potential changes to the proposed exemption, these members also suggest consideration of the exemption to disclosing information provided in the European Sustainability Reporting Standards (ESRS) for classified and sensitive information and information on intellectual property, know-how or results of innovation.³ The exemption provided in ESRS provides explicit conditions to apply the exemption and requires that the undertaking shall make every reasonable effort to ensure the overall relevance of the disclosure in question is not impaired.

We do not believe the proposed application guidance would help restrict the application of the exemption to only the appropriate circumstances. We believe the proposed requirement for an entity to disclose the reason it has not disclosed an item of information may lead to boilerplate disclosure or disclosure of highly subjective

³ See ESRS 1 ‘General requirements’ Section 7.7



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assumptions (e.g., assumptions regarding its competitors) and as drafted in the proposal, we believe it may be difficult for regulators to require more detailed disclosure or challenge the highly subjective assumptions. Therefore, as described in the preceding paragraph, some members suggest the IASB modify the proposed application guidance to establish further boundaries in applicability of the proposed exemption.

We disagree with the proposed application guidance in paragraph B67E and B67F of IFRS 3 that would require the acquirer to consider whether instead of applying the exemption, it is possible to disclose information in a different way, for example, at an aggregated level without prejudicing seriously any of the acquirer’s acquisition-date key objectives for the business combination. We are concerned that this application guidance seems to encourage entities to aggregate information for disclosure. We believe aggregated information may fail to provide sufficiently useful information to users and not meet the disclosure objective in paragraph 62A of IFRS 3. Therefore, we suggest the IASB remove this alternative to applying the proposed exemption.

Finally, if the IASB retains the exemption largely as proposed, we conditionally support the proposed application guidance in paragraph B67D(b) of IFRS 3 for an entity to consider the “public availability of information” when determining whether it would be appropriate to apply the proposed exemption to an item of information. Our support for this proposed guidance is conditioned upon a clarification that an item of information is not eligible for the exemption simply because the entity has not made the information publicly available. We believe this clarification would be consistent with the intent of B67D, and we would strongly disagree with an interpretation of B67D that non-public information always qualifies for the exemption.

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:



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المنظمة الدولية لهيئات الأوراق المالية

- 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?

Response:

We conditionally agree with the IASB's proposal to require an entity to disclose information about the performance of a business combination for as long as the entity's key management personnel review that information. Our agreement is conditioned on the IASB's removal of the distinction between "information reviewed" and "information received" by the acquirer's key management personnel for purposes of determining how long the acquirer is required to disclose the information described in paragraph B67A(b). For example, we note paragraph B67B(b) of IFRS 3 contemplates a circumstance in which key management personnel stop reviewing whether an acquisition-date key objective and the related targets for a strategic business combination

10

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are met but continue to receive information based on the metric originally used to measure the achievement of that key objective and the related targets. We are concerned that this distinction may cause enforceability issues since it will enable key management personnel to assert that the information they receive regarding the achievement of an acquisition-date key objective and related targets is not actually reviewed, thereby circumventing the disclosure requirements in paragraph B67A of IFRS 3. While we understand management may frequently receive information that it does not review, we believe that for purposes of this proposal, it should be assumed that if key management personnel are receiving the information, it is important to users understanding about the achievement of key objectives and related targets of the business combinations. Therefore, we believe the IASB should remove this distinction from paragraphs B67A and B67B of IFRS 3 and require information to be disclosed when that information is received by the acquirer's key management personnel. Additionally, we note the term "key management personnel" is also used in IAS 24 when assessing control. Therefore, we believe entities will be familiar with the application of the term.

We conditionally agree with the proposal that 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 receive that information. Our agreement is conditioned on the IASB's response to our feedback above to require information to be disclosed when that information is received by the acquirer's key management personnel and the following feedback regarding the proposed disclosure of information 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 significant business combination within a particular time period.

We disagree that an entity should not be required to disclose the information specified by the proposals when the entity's key management personnel have not started reviewing and do not plan to review whether an acquisition-date key objective and the related targets for a strategic business combination are being met. Under the current proposal, in this circumstance entities would be required to disclose only that fact and the reasons for not doing so. We believe this disclosure would not meet the disclosure objective in paragraph 62A(b) of IFRS 3 as it would not allow an investor to evaluate the extent to which the benefits an entity expects from the business combination are being obtained. Therefore, in addition to the current proposed disclosure, we believe the IASB should require disclosure of any revised key objectives and related targets that key management personnel is using to evaluate the performance of the business combination and whether actual performance is meeting or has met those key objectives and related targets to meet the disclosure objective in paragraph 62A(b) of IFRS 3.

We also disagree with the time period for the disclosure when the entity's key management personnel stop reviewing the achievement of a key objective and targets for a strategic business combination (i.e., the end of the second annual reporting period after the year of acquisition). We note that an evaluation of the extent to which the benefits an entity expects from a business combination are being obtained often continues long after the second annual reporting period after the year of acquisition. In this regard, we believe the IASB should

11

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modify the proposal to (1) require an entity to disclose the time period key management personnel expects to achieve its acquisition-date key objectives and related targets and align the disclosure requirements with the expected time period, and (2) require disclosure of any revised key objectives and related targets that key management personnel is receiving to evaluate the performance of the business combination and whether actual performance is meeting or has met those key objectives and related targets to meet the disclosure objective in paragraph 62A(b) of IFRS 3 and improve transparency for users.

Finally, we note that an entity may disclose quantitative metrics regarding the actual performance of a business combination that may include adjustments to amounts derived from the financial statements. We believe it is important for users to understand the nature of such adjustments to evaluate whether the benefits the acquirer expects from the business combination are being obtained. Therefore, we believe the IASB should consider a requirement for the acquirer to disclose how the metric is calculated and a reconciliation between the metric used to evaluate the performance of a business combination and amounts derived from the financial statements, similar to the requirements in paragraph 123 of IFRS 18 *Primary Financial Statements*.

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



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- 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(e) 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?



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Response:

We generally support the IASB's proposals. We believe the requirement to disclose quantitative information about expected synergies in the year of acquisition will improve transparency for users of the factors that make up goodwill. We also believe this disclosure will improve the enforceability of the goodwill impairment test requirements by providing more information about an entity's underlying assumptions. However, we believe an entity should be required to disclose information about whether expected synergies have been achieved in periods after the business combination if the entity's key management personnel receive information about benefits from expected synergies from the business combination. We acknowledge that an entity's key management personnel may assess whether expected synergies have been achieved in reviewing the performance of the business combination which would then require an entity to disclose information about synergies being reviewed by the entity's key management personnel. However, because expected synergies are often a main component of goodwill recognised in a business combination, we believe the IASB should consider explicitly requiring subsequent disclosure about whether expected synergies have been achieved if the entity's key management personnel receive information about benefits from expected synergies from the business combination. to improve transparency for users.

We also believe it is important for users to understand the nature of any expected synergies disclosed by an entity. We note the example included in paragraph IE72 illustrates that the disclosure should include the category of expected synergies (e.g., revenue synergies) but does not provide a description of what is creating the synergy (e.g., cross selling the products of each company to the customers of the other). We appreciate that entities have expressed concerns with disclosing potentially sensitive information in this disclosure (e.g., potential staffing reductions) prior to formal approval. However, we believe the current proposal will not allow users to understand the nature of expected synergies. Therefore, we believe the IASB should consider modifying proposed paragraph 36(da) of IFRS 3 to require disclosure of a description of the expected synergies included in each category to provide additional transparency for users.

Additionally, we note that the proposal only requires quantitative information about expected synergies. However, we note that certain jurisdictions may have regulations that allow or require an entity to disclose the effect of synergies and dis-synergies of acquisitions outside of the financial statements in a regulatory filing. For example, in the U.S., if synergies are depicted in pro forma financial information, regulations require an



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المنظمة الدولية لهيئات الأوراق المالية

entity to also include the effect of dis-synergies to mitigate the risk of biased pro forma adjustments.⁴ For example, dis-synergies may include a potential loss of customers or suppliers due to uncertainty caused by a merger or a potential increase in taxes across different jurisdictions or countries. Therefore, we believe the IASB should consider a requirement for an entity to disclose any related dis-synergies of acquisitions as well to improve transparency.

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

⁴ See Section IV.D.12 [Final Rule: Amendments to Financial Disclosures about Acquired and Disposed Businesses](#) (May 2020)



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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?

Response:

We disagree with the current proposals to reduce shielding and management over-optimism but would strongly support additional IASB efforts to reduce shielding and management over-optimism. The risk of unrecognised impairment on accumulated goodwill balances arising from business combinations (“too little, too late”) as well as “close call” situations (i.e., limited headroom) where IAS 36 would not require impairment recognition are top priority issues among members.⁵ We believe the IASB’s proposals do not sufficiently address the concerns of shielding and management over-optimism. Therefore, as described further below, we believe the IASB should propose additional amendments to IAS 36 that, in our view, would be more effective at mitigating these concerns.

Proposals to reduce shielding:

We disagree with the proposals to reduce shielding absent additional amendments. We believe that replacing the phrase “goodwill is monitored” in paragraph 80(A) of IAS 36 to “business associated with the goodwill is monitored” will likely not sufficiently address the concern of shielding. However, we believe the IASB should provide illustrative examples to clarify application of the proposed requirements in paragraph 80(A) and 80(B) of IAS 36. For example, potential illustrative examples could provide characteristics about cash-generating units (CGU) or groups of CGUs that may be relevant in (a) identifying which CGU or group of CGUs is expected to benefit from the synergies of the combination and (b) determining the lowest level for which there is financial information about the CGUs identified that management regularly uses to monitor the business associated with the goodwill. Additionally, we strongly suggest the IASB modify the proposal to also require disclosure of information about a decline in the performance of a CGU over time that results in “close call” situations in advance of an impairment (i.e., when the excess of the recoverable amount and the carrying amount is declining and creates a risk of impairment in the near term). Additionally, we believe the IASB should consider explicit

⁵ See [IOSCO Recommendations on Accounting for Goodwill](#) (December 2023).



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requirements for an entity to disclose the degree of uncertainty associated with the key assumptions in the impairment test and the potential events and/or changes in circumstances that could reasonably be expected to negatively affect the key assumptions. We believe these changes would mitigate concerns of shielding by providing users additional transparency to assess whether any of the entity’s goodwill is at risk of impairment in the near term. We also encourage the IASB to explore expanding the recognition of intangible assets as part of its research project on Intangible Assets. We believe the impact of shielding is reduced when an entity properly recognizes all identifiable intangible assets since the impairment test would be conducted for each intangible asset without the effect of shielding.

We observe that in applying paragraph 100 of IAS 36, “corporate assets” cannot be fully attributed to the CGU under review because they do not generate cash flows independently of other assets or groups of assets. We acknowledge paragraph 100 of IAS 36 provides examples of “corporate assets” such as a building of a headquarters or a division of the entity, EDP equipment or a research center. However, some members have observed that in practice, preparers often assert that other types of assets such as brand names and other intangible assets do not generate cash inflows independently of other assets or groups of assets and cannot be allocated in a reasonable and consistent basis to the CGU under review (paragraph 102(a) of IAS 36). These members believe that testing the impairment of those assets at a higher level may contribute to the shielding of impairment losses in a CGU or group of CGUs under review, and therefore suggest the IASB provide additional guidance on intangible assets that do not generate cash flows independently of other assets or groups of assets and how those assets can be allocated on a reasonable and consistent basis to the CGU under review.

Some members believe the IASB should consider establishing a framework for allocating goodwill to CGUs similar to the framework under U.S. GAAP (i.e., ASC 350-20-35-41). These members acknowledge this may take the IASB additional time to develop comprehensive guidance in this area but believe the effect of establishing such a framework would have a more substantial impact on concerns of shielding. We note that the IASB continues to believe it would not be possible to provide comprehensive guidance on allocating goodwill to CGUs as stated in BC198. At a minimum, these members believe the IASB should provide further explanation in the Basis for Conclusions as to why this is not viewed as being possible.

Proposals to reduce management over-optimism:

We disagree with the proposals to reduce management over-optimism absent additional amendments. We believe that for enforcers to effectively address management over-optimism, there needs to be clear authoritative guidance for entities to apply. Members note the proposal to reduce management over-optimism would require an entity to disclose in which reportable segment a CGU or group of CGUs containing goodwill is included. Although we support this proposal, we believe it will likely have a minimal impact on reducing management



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المنظمة الدولية لهيئات الأوراق المالية

over-optimism because paragraph 134(a) of IAS 36 already requires an entity to disclose the carrying amount of goodwill allocated to the CGU or group of CGUs.

Some members noted a perceived lack of clarity in applying paragraph 80(b) of IAS 36 that indicates each unit or group of units to which goodwill is allocated not be larger than an operating segment as defined by paragraph 5 of IFRS 8 *Operating Segments* before aggregation. These members have observed some entities that define a CGU or a group of CGUs that affect two reportable segments. For example, this may occur when a CGU or a group of CGUs are defined by product, but reportable segments are geographical areas. These members believe the proposed clarification in paragraph 134(a) of IAS 36 seems to confirm that it is not possible to allocate goodwill to a CGU or group of CGUs that forms more than a single reportable segment. However, these members suggest the IASB state this explicitly in application guidance or in the Basis for Conclusions to provide additional clarity.

Some members believe the IASB should consider a requirement for an entity to disclose a comparison of cash flow forecasts used in the impairment tests in prior years with actual cash flows to reduce management over-optimism. These members believe this disclosure would provide users greater transparency to assess key assumptions with minimal incremental costs. Alternatively, some members believe the IASB could provide application guidance on how to apply the requirements in paragraph 33 of IAS 36 to help reduce management over-optimism and support enforcement.

In addition, we note that paragraphs 33 and 38 of IAS 36 do not require an entity to prioritize reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset over the most recent financial budgets and forecasts approved by management when developing cash flow projections. Therefore, we suggest the IASB amend paragraph 38 of IAS 36 to provide additional clarity that cash flow projections used in determining the value in use shall reflect management's best estimate of the range of economic conditions that will exist over the remaining useful life and be based on reasonable and supportable assumptions.

IASB Research Project on Intangible Assets:

We observe that IAS 38 currently does not require recognition of certain intangible assets, including many internally generated intangible assets. We believe the lack of recognition of these intangible assets contributes to the issue of shielding in impairment tests. Therefore, we believe the IASB should explore expanding the recognition of intangible assets, including internally generated intangible assets, as part of the project on Intangible Assets. We believe the expected benefits of reducing shielding for users should be considered as part of the IASB's assessment of the benefits and costs of expanding the recognition of intangible assets. Additionally, we believe that the enforceability of the guidance on recognition of individually identifiable intangible assets acquired in a business combination could be improved through targeted improvements and/or

18



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educational materials to illustrate how the separability criterion in IAS 38 might be applied to certain items acquired in a business combination (e.g., in-process research and development, brands and other intellectual property).

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?

Response:

We have concerns 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. We acknowledge the proposal to remove the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or cash flows from arising from improving or enhancing an assets’ performance may reduce the costs and complexity of the impairment test for preparers. However, we are concerned that the proposal may lead to an increased risk of management over-optimism because it is unlikely an entity will engage in a future restructuring if it does not believe that the restructuring would result in net

19

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positive cash flows. Therefore, we do not believe this proposal will adequately address the concern of management over-optimism raised by users. Additionally, we believe the inclusion of these cash flows increases the subjectivity of the estimates of future cash flows used in the impairment test and increases the difficulty for regulators to enforce the impairment test requirements. Therefore, most members believe the IASB should retain the existing paragraph 44 of IAS 36 and disregard 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.

Some members believe the IASB should provide illustrative examples of future cash flows that are associated with the current potential of an asset to be restructured, improved or enhanced as stated in paragraph 44A(b) of IAS 36. These members believe this guidance would be helpful to preparers, auditors, and regulators if it included examples of future restructuring plans to which an entity is not yet committed to illustrate circumstances that may and may not be appropriate in applying paragraph 44A(b) of IAS 36 (i.e., Case A and Case B). In addition, some members believe the IASB should consider a requirement for entities to provide quantitative disclosures regarding the extent to which the calculated value in use is influenced by expected cash flows resulting from uncommitted future restructuring and enhancements to improve transparency for users.

We agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use because we believe this could reduce some of the complexity of the impairment test, although we do not believe this proposal will sufficiently address the concern of management over optimism. We also note removal of the requirement to use a pre-tax discount rate is more aligned with U.S. GAAP, under which an entity can use either a pre- or post-tax rate to be consistent with the related cash flows. However, we believe the IASB should provide application guidance to clarify whether deferred tax liabilities should be included as part of the net assets of the relevant CGU.

**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);



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- 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?

Response:

We have no view on the proposals.

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.

Response:

We agree with the IASB’s proposal to require entities to apply the amendments prospectively from the effective date without restating comparative information.



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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Jonathan Wiggins, Chair of the Accounting Subcommittee of Committee 1 at +1 202-551-3694 or me. In case of any written communication, please mark a copy to me.

Yours sincerely,

Paul Munter

Paul Munter

Chair
Committee on Issuer, Accounting, Audit and Disclosure
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