ICAEW
REPRESENTATION 59/24

BUSINESS COMBINATIONS - DISCLOSURES, GOODWILL AND IMPAIRMENT

Issued 15 July 2024

ICAEW welcomes the opportunity to comment on the Business Combinations - Disclosures, Goodwill and Impairment exposure draft published by IASB on 14 March 2024, a copy of which is available from this link.

We agree with the IASB's objective of providing more decision-useful information about business combinations to investors and other users of financial statements, including information to allow users to judge the success of a business combination. We have concerns around the proportionality, practicability and auditability of some of the proposed amendments, as well as concerns about their clarity.

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KEY POINTS

OVERALL AIMS FOR DISCLOSURE

1. ICAEW welcomes the opportunity to comment on this exposure draft. Whilst we agree with the IASB's objective of providing more decision-useful information about business combinations to investors and other users of financial statements, including information to allow users to judge the success of a business combination, we have concerns around the proportionality, practicability and auditability of some of the proposed amendments, as well as concerns about their clarity.
2. Our principal concerns are set out below, followed by more detailed responses to each of the questions in the exposure draft.

SCOPE OF THE REQUIREMENTS

3. We are aware that some IFRS preparers, particularly those without public accountability, may struggle to see the value of the proposed additional disclosure requirements in relation to business combinations, and that there is concern that the cost of applying the requirements might exceed the benefit to the users of financial statements.
4. While we do not recommend limiting the scope of the proposed requirements, and believe they should apply to all entities applying IFRS Accounting Standards, we encourage the IASB to remain mindful of the breadth of IFRS reporters, particularly those with less capacity to deal with expanding reporting requirements. We recommend that the IASB considers the proportionality of the requirements and clarity of application guidance as it finalises the amendments to IFRS 3 *Business Combinations*.

USE OF "STRATEGIC"

5. We are supportive of the IASB's approach of requiring additional disclosure for a subset of business combinations rather than for all material acquisitions. However, we do not believe that preparers and users will interpret "strategic" in the same way, which will lead to a lack of consistency and comparability between businesses.
6. We note the IASB's proposed definition of a strategic business combination as being one for which "failure to meet any of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy". The criteria provided by the IASB currently appear to be aimed at identifying "substantial" acquisitions rather than "strategic". We recommend that the IASB reconsiders its intentions and objectives for the new disclosure requirements. If the intention is for entities to identify, and disclose additional information about, "substantial" business combinations, it would be helpful to reframe the proposed requirements to that end.
7. Our preference is for the IASB to reframe the requirements such that additional disclosure is made for "substantial" business combinations. This will allow the IASB to retain the current quantitative approach, which is less subjective and provides clear boundaries by which to audit against.

THRESHOLDS

8. In our view, it is not possible to identify "strategic" business combinations through the use of quantitative thresholds because what is, and is not, strategic is a matter of judgement rather than size. The concept of a "strategic business combination" therefore conflicts with the proposed quantitative thresholds. Should the IASB wish to retain its current approach to requiring additional disclosures for "strategic" (rather than "substantial") business combinations, this conflict must be resolved prior to finalising the proposed amendments.

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9. We recommend that the IASB includes a rebuttable presumption in the criteria for establishing whether additional disclosure is required for a business combination (in both directions, ie, where the threshold is and is not exceeded), regardless of whether the IASB requires additional disclosures for “substantial” or “strategic” business combinations.
10. We have identified some issues with the suitability of the proposed thresholds, which we outline in our response to Question 2.

PROPOSED EXEMPTION

11. We support, in principle, an exemption from the disclosure requirements in certain circumstances where the disclosure of information will be seriously prejudicial to the achievement of business objectives.
12. It is our view that, as written, there are issues with the practicality and auditability of the proposed exemption due to the level of judgement required when using the exemption. Preparers could circumvent the disclosure requirements through inappropriate use of the seriously prejudicial exemption due to a lack of sufficiently clear guidance on how and when the exemption should be applied. We have included suggestions for clarifying the proposed exemption in our response to Question 3.
13. We believe that it will be preferable for the amended standard to convey a sense of the seriousness of using the exemption. Assuming the IASB intends the exemption to be used infrequently, we would be supportive of the IASB stating that the exemption should only be used in “rare” or “extremely rare” cases. In the absence of such a statement, the need for clear application guidance relating to use of the exemption would be more pressing.

EXPECTED SYNERGIES

14. We acknowledge that the IASB believes the term “synergies” is widely understood, therefore the proposed amendments do not include a definition of “synergies”. However, we are concerned that preparers will need a consistent understanding of what synergies are to apply the proposed requirements, and that this will not be possible without an explanation of what the IASB means by “synergies”, together with guidance and examples. We recommend that the IASB includes more information about the basis of preparation for figures in the synergies disclosure, including an explanation of “synergies”.
15. We are concerned that the proposed requirements for disclosure of expected synergies are far too prescriptive. We do not believe it will always be the case that management considers or documents quantitative estimates of expected synergies when making acquisition decisions. Acquisitions could be undertaken for other business reasons that might not include synergies – such as to increase market share, or to diversify or enter into a distinct or new line of business. In these cases, the proposed requirements could lead to preparers estimating expected synergies solely for the purpose of disclosure requirements rather than to inform their decision-making. Such estimates will not provide users with useful insight into management’s decision-making process for the business combination and will therefore be of questionable relevance.
16. Additionally, we question the usefulness and auditability of quantitative estimates of expected synergies. In our experience, such estimates (even when developed as part of due diligence) are inherently unreliable.
17. We recommend that the IASB develops more flexible requirements with respect to expected synergies, with a greater emphasis on qualitative disclosure. Noting that the proposed requirements will apply to all entities applying IFRS Accounting Standards, qualitative requirements are likely to be more proportionate for preparers with less capacity to deal with expanding reporting requirements. Additionally, qualitative requirements are likely to create

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fewer challenges in situations where the strategic rationale for the acquisition is not related to expected synergies.

FORWARD-LOOKING INFORMATION

18. We are supportive of requirements to disclose information on performance against key financial objectives and related targets, and other key objectives and related targets for which reliable measurement is possible. However, we have concerns that the proposals could require disclosure in the audited financial statements of information on forward-looking targets, or other targets or measures that are not aligned with IFRS Accounting Standards. Such information will require significant judgement and estimation to produce and may therefore lack reliability and create challenges for auditors.
19. We recommend that the IASB clarifies its expectations regarding disclosure of non-financial targets and information that lacks reliability and auditability due to it being forward-looking. In such cases, it may be more suitable for the IASB to encourage preparers to include discussion of performance against targets in the management commentary (where any issues with reliability can be signposted) rather than require disclosure in the financial statements.

TIMEFRAMES

20. Typically, disclosures required by IFRS 3 are made only in the year of acquisition. We would consider the long-term disclosure of the performance of a business combination against acquisition-date objectives and targets to be onerous and disproportionate. Additionally, we would question the relevance of information about performance against acquisition-date key objectives and targets several years after the acquisition. We therefore recommend a cut-off point no later than five years after acquisition, after which entities would not be required to disclose performance of a business combination against acquisition-date objectives and targets.

INTEGRATION OF ACQUIRED BUSINESSES

21. We are concerned that the proposed requirements may not operate as intended in practice, where we anticipate that acquired businesses are integrated into the acquiring group quickly and are then no longer monitored separately. The amount of disclosure about the performance of strategic business combinations may fall short of user’s expectations as a result. We have commented further on this issue, and made a suggestion for clarifying the requirements, in paragraphs 39 – 41 below.

AMENDMENTS TO IAS 36

22. We are broadly supportive of the proposed amendments to remove a constraint on the cash flows used to calculate value in use, and to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. These amendments will align value in use calculations more closely to what happens in practice and the budgets prepared by management.
23. We do not believe that paragraph 80A is a helpful addition to IAS 36 *Impairment of Assets*. As drafted, we anticipate that paragraph 80A will cause problems and inconsistent application in practice. Specifically, the proposals require an entity to “determine the lowest level for which there is financial information about the cash-generating units … that management regularly uses to monitor the business associated with the goodwill”. Difficulties arise in particular because “management” is not defined, and the nature of management monitoring of “the business associated with the goodwill” is not explained. As drafted, paragraph 80A could be interpreted as meaning impairment reviews should be performed at

the operating segment level (if this is where synergies are managed). On the other hand, paragraph 80A may lead to impairment reviews being performed at a very low level within the business, for example, at the level of a single retail outlet that is monitored by an area manager.

24. We believe that a rules-based requirement may be needed if the IASB wishes to ensure that preparers do not automatically default to the operating segment level when performing an impairment review where this is otherwise not appropriate.

AUDITABILITY

25. We have concerns about the auditability of the proposed disclosures, which we expand on further in our responses to Questions 1, 3 and 5. The quality of available documentation to support the identification of, and performance against, acquisition-date key objectives and related targets for a business combination might create significant challenges for auditors. Similarly, the quality of documentation to support disclosures including expected synergies and non-financial measures may be variable and so would be difficult to audit. This is particularly likely where the audited entity does not communicate with external parties on matters such as performance against targets.

ANSWERS TO SPECIFIC QUESTIONS

Question 1 – Disclosures: Performance of a business combination

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?

26. We support the overall intention behind the proposed amendments to IFRS 3. We understand there is a need for financial statements to include more information about certain business combinations to allow users to make their own assessment about the success of the business combination. It is important that investors are able to hold management to account for their decision-making.

Management approach

27. On balance, we agree that the requirements should take a management approach, meaning the information disclosed is based on an entity's internal reporting rather than prescriptive requirements, because this allows users of the financial statements to understand management's decision-making processes as well as allowing management to communicate their view.
28. Where a specific target or synergy rationale has been outlined in a public offer document such as a prospectus, we recommend that the requirements include a rebuttable presumption that the target or synergy will be included in relevant disclosure.

Scope of the requirements

29. We understand the need to avoid burdensome requirements that add clutter, rather than relevant and useful information, to financial statements. We therefore agree that additional disclosure requirements should apply to a key subset of business combinations rather than to all material business combinations.
30. We are aware that some IFRS preparers, in particular those without public accountability, may struggle to see the value of the additional disclosure requirements, and that in some cases there is concern that the cost of applying the requirements might exceed the benefit to the users of the financial statements. For example, entities such as owner-managed companies with few external stakeholders, or private equity-owned entities in which the investors have a seat on the board, are likely to have more direct means of holding management to account for the performance of business combinations.
31. On balance, we do not recommend limiting the scope of the proposed requirements and believe they should apply to all entities applying IFRS Accounting Standards. As the proposed disclosure requirements take a management approach, reporting may naturally be differentiated between smaller and larger entities, or between entities with greater or lesser degrees of external interest in their financial statements. We believe this is a helpful feature of the amendments that the IASB should seek to retain.
32. However, as the proposals will apply to all entities applying IFRS Accounting Standards, we encourage the IASB to remain mindful of the breadth of IFRS reporters, particularly those with less capacity to deal with expanding reporting requirements. We recommend the IASB considers the proportionality of requirements and clarity of application guidance as it finalises the amendments to IFRS 3.

"Strategic" business combinations

33. We believe that "strategic" is a potential misnomer for the subset of business combinations for which additional disclosure will be required. We note that the IASB has provided a definition of a strategic business combination in paragraph BC54 as being one for which "failure to meet any of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy". Fundamentally, we believe

many preparers and users will interpret the concept of a strategic business combination differently. For example, one interpretation might be that an entity is unlikely to enter into a business combination unless it makes strategic sense, meaning most, if not all, business combinations are strategic.

34. However, in our experience, very few business combinations are so strategically important that they put the entity at serious risk of failing to achieve its overall business strategy, meaning very few business combinations would meet the IASB's definition of "strategic". We recommend that the IASB reflects on the suitability of the definition of "strategic business combination" if the definition is to be retained.
35. It could be argued that the proposed criteria in paragraph B67C will not identify all strategic business combinations as defined in paragraph BC54. This is because the criteria for identifying "strategic business combinations" in paragraph B67C appear to be aimed at identifying "substantial" rather than "strategic" business combinations. We recommend that the IASB reconsiders its intentions and objectives for the new disclosure requirements. If the intention is to identify "substantial" business combinations, it would be helpful to reframe the proposed requirements to that end.
36. Our preference, which we explain in our response to Question 2, is for the IASB to require additional disclosure for "substantial" rather than "strategic" business combinations.
37. Should the IASB wish to retain its current approach to requiring additional disclosures for "strategic" (rather than "substantial") business combinations, the conflict between the definition of a strategic business combination (which is a matter of judgement) and the criteria in paragraph B67C (which provide limited opportunity for the use of judgement) requires resolving prior to finalising the proposed amendments.
38. Further, if the requirements remain framed around "strategic" business combinations, we recommend that the IASB includes the definition of a "strategic business combination" in the standard itself, and that this is accompanied with guidance on the application of the definition to reduce diversity in practice.

Siloed approach

39. We are concerned that the proposed requirements may not operate as intended in practice. We anticipate that the requirements could be effective for business combinations that take place in isolation. However, subsequent business combinations, integration of the acquired business into the acquiring group, and changes in management can mean that an acquired business is not always monitored in isolation. Additionally, the objectives for the acquired business can change as the business is integrated into the acquiring group.
40. We anticipate that in practice, acquired businesses are often integrated into the acquiring group quickly and are, therefore, no longer monitored separately. The amount of disclosure about the performance of strategic business combinations may fall short of users' expectations as a result.
41. We note paragraphs BC146 and BC147, which refer to situations in which acquisition-date targets are based on the successful integration of the acquired entity into the acquiring group and the performance of the combined business as a whole. We believe that these paragraphs are helpful in clarifying the IASB's intentions for the proposed disclosures. We encourage the IASB to bring the points made in paragraphs BC146 and BC147 into IFRS 3.

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Forward-looking information

42. We are supportive of requirements to disclose information on performance against key financial objectives and related targets and other key objectives and related targets for which reliable measurement is possible. However, we are concerned that the proposals will require preparers to include information on forward-looking targets in the financial statements. Such information might require significant judgement and estimation to produce and may consequently lack reliability. Additionally, regulatory requirements may restrict the extent to which information on forward-looking targets can be included in the financial statements.
43. The proposed requirements might lead to disclosures relating to non-financial targets such as staff retention. Other targets that are not aligned with IFRS Accounting Standards might also be disclosed. For example, in the insurance industry, acquisitions may take place because of the impact on solvency numbers or capital position. We believe it may be problematic to include these types of targets within the audited financial statements.
44. We recommend that the IASB clarifies its expectations for disclosure of non-financial targets and information that lacks reliability and auditability due to being forward-looking. In such cases, it may be more suitable for the IASB to encourage preparers to include discussion of performance against targets in the management commentary, where any issues with reliability can be signposted.
45. We are aware there is a view that important information about the entity's strategy might be better placed in the front end of the annual report, for example in the management commentary, and that disclosure of information such as the strategic rationale behind the business combination in the notes to the financial statements might create duplication and clutter if the same information is also included in the management commentary. However, we appreciate that from a practical point of view, the IASB is not able to mandate the inclusion of information in the management commentary, and that if the proposed disclosures are not required by IFRS 3, the information may not appear anywhere in the annual report.

Audit concerns

46. We are concerned that the quality of available documentation to support the identification of, and performance against, acquisition-date key objectives and related targets for a business combination might create challenges for auditors. Audit of the disclosures could be particularly challenging where the audited entity cannot provide evidence of contemporaneous internal documentation or communication with external stakeholders to support the identification of targets (avoiding the use of hindsight).
47. More generally, we have concerns about paragraph BC145(c) which states that the IASB expects auditors to be able to verify whether the information disclosed faithfully represents what it purports to represent. As the proposed disclosures may be based solely on management-generated information and include information on forward-looking targets, we think it could be challenging for auditors to provide reasonable assurance on the disclosures.
48. We strongly recommend that the IASB liaises with the IAASB to assess whether the expectations stated in BC145 are reasonable.

Question 2 – Disclosures: Strategic business combinations

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.

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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?

Strategic vs. substantive

49. As explained in our response to Question 1 (paragraphs 33 – 38), the question of whether a business combination is “strategic” is a matter of judgement and will be affected by the circumstances surrounding the entity and the business combination. A qualitative approach would be more suitable than the proposed quantitative approach when identifying “strategic” business combinations. However, a qualitative approach would be highly subjective and would create challenges for auditors.

50. A quantitative approach avoids such challenges. Quantitative thresholds are a good mechanism for mandating the inclusion of disclosure in the financial statements where relevant, and provide clear boundaries by which to audit against.

51. Our preference is for the IASB to retain the current quantitative threshold approach. However, because we do not believe that quantitative thresholds can successfully be used to identify “strategic” business combinations, we recommend that the IASB reframes the subset of business combinations for which additional disclosure will be required as “substantial” rather than “strategic”.

Quantitative thresholds

52. While we support the use of quantitative thresholds, we have some concerns around the details in the proposed requirements. The proposed profit threshold is potentially problematic. For example, if an acquiring entity was to break even in the most recent reporting period before the acquisition date, any business combination is likely to exceed the proposed 10% threshold. The proposed threshold will therefore not identify only the most significant business combinations.

53. A further potential issue is created by the inclusion of goodwill in the proposed gross asset-based threshold. While we agree that it is appropriate to include goodwill in a gross asset-based measure, a possible consequence is that an accounting choice that does not substantively affect the business combination will potentially affect whether or not a combination meets the threshold. A business combination is more likely to exceed the proposed 10% threshold if the non-controlling interest is measured at fair value than if it is measured at the proportionate share of the acquiree’s identifiable net assets.

54. We note that different thresholds might cause issues in different business models or industries. For example, in the insurance industry and other financial services entities, large year-on-year swings in operating profit are expected following the introduction of IFRS 18 *Presentation and Disclosure in Financial Statements*, as short-term economic flux (ie, differences between assets and liabilities that are never crystallised) will be included in operating profit. This could lead to a lack of consistency between accounting periods with

respect to the size of business combination that exceeds the threshold. Thresholds based on the balance sheet may be more suitable in such circumstances.

55. On the other hand, where a business combination takes place between businesses with few recognised assets (for example, a business combination involving two software companies), the use of a threshold based on the balance sheet is likely to be unsuitable.

56. To address these potential issues with quantitative thresholds, the IASB may wish to consider including a rebuttable presumption in the criteria used for establishing whether additional disclosure is required for a business combination (in both directions, ie, where the threshold is and is not exceeded), regardless of whether the IASB requires additional disclosures for "substantial" or "strategic" business combinations. For example, management-defined measures of profit are frequently used by management rather than operating profit when monitoring the performance of an entity. A rebuttable presumption might allow an entity to explain, by reference to the management measure of profit, why a business combination that exceeded the operating profit threshold was nevertheless not regarded as "strategic" or "substantial" (or vice versa).

57. Should the IASB wish to retain its current approach to requiring additional disclosures for "strategic" (rather than "substantial") business combinations, we are concerned that a 10% threshold may capture business combinations that are not strategic in nature. We understand from paragraph BC67 that the IASB considered regulatory requirements in different jurisdictions when establishing the proposed thresholds. We note that the threshold for a Class 1 transaction in the UK's Financial Conduct Authority's Listing Rules is set at 25%. A higher threshold, such as 25%, may be appropriate when identifying "strategic" business combinations. As the IASB finalises the amendments to IFRS 3, we encourage the IASB to consider whether 10% thresholds remain appropriate, particularly if a rebuttable presumption is not included in the standard.

Qualitative thresholds

58. We support the use of qualitative indicators in addition to the quantitative thresholds. A qualitative 'overlay' will allow entities to determine when disclosure of additional information about a business combination might be useful to the users of the financial statements in situations where the quantitative thresholds are not exceeded.

59. That said, we believe the qualitative threshold in B67C(c) is potentially problematic. Our experience indicates that there are challenges in practice around the application of the definition of "major line of business or geographical area of operations" in the context of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Specifically, as the phrase is not explained further, and no definition of "major" is provided in IFRS 5, different interpretations exist on the application of the requirements of IFRS 5.

60. As a result, we are concerned about inclusion of the phrase "major line of business or geographical area of operations" in IFRS 3, without further definition or explanation. We believe that further explanations or application guidance are required to ensure consistent application of the proposed requirements. For example, clarity on the relationship between "major" and "strategic" (or "substantial") would be beneficial.

61. Additionally, we note that other qualitative factors besides entering a new major line of business or geographical operation may be relevant in determining whether a business combination is strategic. For example, the business combination may have been entered into to obtain new intellectual property or a new customer base, or as part of a vertical integration strategy. The IASB may wish to consider including additional qualitative criteria or indicators, or developing a combination of qualitative and quantitative criteria with a rebuttable presumption, to ensure the new requirements can be applied in a consistent way and properly identify all "strategic" (or "substantial") business combinations.

Series of business combinations

62. We share concerns noted by the IASB in paragraph BC71 that users may not receive sufficient information about business combinations that, individually, fall below the proposed thresholds but form part of a series of business combinations that, together, exceed the proposed thresholds.
63. We acknowledge the practical difficulties in developing a method for identifying a series of business combinations that should be assessed in aggregate as noted by the IASB in paragraph BC72. However, we do not agree with the IASB's view in paragraph BC73 that the proposed quantitative threshold in paragraph B67C(c) helps an entity to identify the first in a series of business combinations entered into to achieve the same strategic objective, because paragraph B67A refers to "each strategic business combination". We believe paragraph B67A could be interpreted as meaning each business combination is required to be assessed in isolation.
64. The IASB may wish to permit some aggregation when applying the criteria to business combinations that represent part of a series of business combinations that together will be strategic, but that do not individually meet the thresholds in paragraph B67C. Additionally, we think that broadening the range of qualitative indicators to use when identifying business combinations for which additional disclosure would be beneficial (as suggested in paragraph 61 above) may help to address problems around disclosure of information about a series of related business combinations.

Minor drafting concern

65. We note the sentence above Figure 1 states that Figure 1 demonstrates the application of paragraphs B67A – B67C. As written, Figure 1 makes reference only to paragraphs B67A and B67B, not to paragraph B67C. We recommend that the IASB amends the sentence above Figure 1 to refer only to paragraphs B67A and B67B.

Question 3 – Disclosures: Exemption from disclosing information

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.

66. We support, in principle, an exemption from the disclosure requirements in certain circumstances where the disclosure of information will be seriously prejudicial to the achievement of business objectives. However, it is our view that, as written, there are issues with the practicality and auditability of the proposed exemption.

Level of detail required

67. We believe that paragraph B67E, which requires entities to consider disclosing information in a different way before applying the exemption, will be helpful in discouraging entities from using the exemption inappropriately. However, we anticipate that preparers will be able to obtain evidence to support the use of the exemption, for example through a management paper or by obtaining legal advice that disclosing the required information will seriously prejudice the achievement of any of the acquirer's acquisition-date key objectives for the business combination.
68. Additionally, we have some concerns that the need for an exemption from the disclosure requirements indicates issues with the disclosure requirements themselves that could be resolved with improved clarity.
69. For example, paragraph B64(ea) will require entities to disclose both quantitative and qualitative information about expected synergies. The section relating to B64(ea) in the proposed amendments to the illustrative examples indicates that the IASB expects relatively high-level, straightforward disclosure. However, we believe that this expectation needs to be apparent in the standard itself. On reading paragraph B64(ea), preparers may believe that more granular, detailed disclosure is required.
70. Where preparers interpret the requirements in this way, there may be overuse of the proposed exemption, because detailed, granular information is more likely to be seriously prejudicial than high-level information. For example, granular information about expected cost savings could include information about expected redundancies or closures. Preparers may use the proposed exemption to avoid disclosing this information, particularly if employees and unions are not yet aware of the redundancies or closures.
71. The risk of entities using the proposed exemption inappropriately may be reduced naturally if the IASB clarifies its expectations and extends application guidance in response to feedback to its consultation.

Use of the exemption

72. We agree that the proposed exemption should only be used in appropriate circumstances. However, we question the proportionality of requiring preparers to disclose the reasons why the exemption has been applied (paragraph B67E), particularly if this requirement will apply to each item of information separately. We have some concerns that this requirement adds complexity and may harm the meaningful nature of the exemption especially in cases where the reasons might themselves be seriously prejudicial. We recognise that a requirement to disclose reasons for use of the seriously prejudicial exemption provides a disincentive from overuse and allows an auditor to better challenge the appropriateness of use of the exemption. We think it would be helpful if the IASB clarifies whether a reason for non-disclosure should be given for each piece of information to which the exemption is applied, or whether the entity can provide an overall reason why the exemption has been applied.
73. We believe that it will be preferable for the amended standard to convey a sense of the seriousness of using the exemption. We recommend the IASB provides application guidance to clarify when use of the exemption would, and would not, be appropriate. Assuming the IASB intends the exemption to be used infrequently, we would be supportive of the IASB stating that the exemption should only be used in "rare" or "extremely rare" cases. In the absence of such a statement, the need for clear application guidance relating to use of the exemption would be more pressing.
74. While the terminology in the proposed exemption is similar (but not identical) to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (as noted in paragraph BC80), our experience suggests the wording in IAS 37 is sometimes misunderstood. For example, we

understand that some preparers interpret the exemption in IAS 37 as meaning no information is required to be disclosed at all rather than no seriously prejudicial information. We therefore recommend that the IASB clarifies that the proposed exemption only applies to the information that is seriously prejudicial, not to all information required for the disclosure.

75. Additionally, use of the proposed exemption will require a high degree of judgement to establish whether disclosure of information will be seriously prejudicial. We expect there will be potential for disagreement between preparers and auditors when determining whether the "seriously prejudicial" benchmark has been reached, therefore suggest that the IASB includes an explanation of "seriously prejudicial".

Clarifying the requirements

76. We expect that use of the exemption will be a topic of discussion between preparers and auditors. Clarification of the IASB's expectations around the exemption will assist in such discussions.

77. For example, to help ensure that the exemption is not applied inappropriately, we recommend that the IASB clarifies paragraph BC81(a). Paragraph BC81(a) offers an example of when an entity might use the exemption based on an expectation that competitors may be able to use the information to prevent the entity from meeting objectives. We believe this example is open-ended, and it is unclear what this example means in practice. We anticipate that entities might use the example to apply the exemption in a wide range of circumstances, and recommend that the IASB makes the example more specific.

78. We echo concerns noted in paragraph BC75(c), that in some jurisdictions, there might be legal barriers that prevent disclosure of information before certain actions have been completed eg, communication with employees. We recommend that the IASB clarifies it is appropriate to use the proposed exemption in such circumstances.

79. Finally, we note that paragraph BC91 states that the IASB has not included a probability assessment in the application guidance for the exemption because the exemption can only be used when the prejudicial outcome is "expected". However, we question whether it is clear what is meant by "expected" and recommend that the IASB clarifies its meaning.

Extent of the disclosure exemptions available

80. We note that the proposals do not offer an exemption from the requirements of paragraph B67A(b)(i), which will require entities to disclose information about actual performance. We are concerned that this undermines exemptions from paragraphs B67A(a) and B67A(b)(ii), as users of the financial statements could use the information disclosed under paragraph B67A(b)(i) to work backwards to identify what hasn't been disclosed under paragraphs B67A(a) and B67A(b)(ii).

81. We would also question the relevance of applying paragraph B67A(b)(i) to disclose actual performance without providing further context.

Question 4 – Disclosures: Identifying information to be disclosed

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?

82. We broadly agree with the proposal that the information an entity discloses should be the information reviewed by the entity's key management personnel. Key management personnel is defined in IAS 24 *Related Party Transactions* – a standard that is widely applied, and therefore the term should be well understood.

83. As key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, we believe that key management personnel is the appropriate level of management to hold accountable for the performance of business combinations.

Timeframes

84. As mentioned in paragraph 40 above, we understand that acquired businesses are usually integrated into a group quickly, meaning there will be a natural end to the disclosure of information about the success of the business combination.

85. That said, we recommend the IASB considers including a cut-off point after which the entity will not be required to make additional disclosure about the performance of the business combination against acquisition-date objectives and targets. We believe that in the longer term, users should be able to find information about the performance of the business combination elsewhere in the financial statements, for example as part of the IFRS 8 *Operating Segments* disclosures. This is particularly the case as many business combinations are made with the intention of integration with the existing business in a short timeframe.

86. A cut-off point would avoid a situation in which more information is provided about a component of the business than the business as a whole for an indefinite timeframe. Such a situation would differ from the current position of IFRS 3, where disclosures are typically made only in the year of acquisition (with disclosures in subsequent years relating to the

financial effects of adjustments relating to previous business combinations). We would consider the long-term disclosure of performance of a business combination against acquisition-date objectives and targets to be onerous and disproportionate. Additionally, the relevance of information about performance against acquisition-date key objectives and targets several years after the acquisition is questionable. We therefore recommend a cut-off point no later than five years after acquisition.

Changes to targets and metrics

87. We note from paragraph BC129 that the IASB does not require an entity to disclose information about a change in metrics, and that if an entity changes its objectives or targets for a business combination post-acquisition, the entity would apply paragraph B67B. The entity will not be required to report against its revised objectives and targets for the business combination.
88. We believe that this clarity in paragraph BC129 is helpful, and recommend that the IASB includes this clarification in the main body of IFRS 3.

Management review of information

89. We broadly agree with the disclosures required by the proposals in the scenario referred to in question 4b(ii). As noted at paragraph 86 above, we consider that there should be a cut-off point after which disclosures are no longer included.
90. Proposed paragraph B67B does not give an indication of the level of detail the IASB expects preparers to include when explaining why management has not started reviewing, does not plan to review, or has stopped reviewing performance against acquisition-date key objectives and targets. We recommend that the IASB includes an example of the required disclosure to allow preparers and auditors to understand the level of detail that the IASB intends the disclosure to contain.

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(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?

91. We broadly agree with the proposals on
    – new disclosure objectives;
    – disclosure of the strategic rationale for a business combination; and
    – the removal of "major" in the description of the classes of assets acquired and liabilities assumed.

Explanation of "synergies"

92. We acknowledge that the IASB believes the term "synergies" is widely understood, therefore the proposed amendments do not include a definition of "synergies". However, we are concerned that preparers will need a consistent understanding of synergies to apply the proposed requirements, and that this will not be possible without an explanation of what the IASB means by "synergies", together with guidance and examples. Additionally, an explanation of "synergies" will provide a reference point for auditors when reviewing disclosures.

93. Without further guidance and examples, disclosure may be challenging in certain situations. For example, the synergies the acquirer expects to benefit from may be higher than the goodwill shown in the financial statements. In this situation, it is unclear which figures the entity should report. As a second example, some entities may only attempt to quantify cost-related synergies, while others may attempt to quantify long-term strategic or commercial synergies (which is particularly difficult). We recommend that the IASB includes more information about the basis of preparation for figures in the synergies disclosure, including an explanation of "synergies".

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Expected synergies – quantitative disclosures

94. We are supportive of the IASB's decision not to require entities to track and disclose quantitative information about synergies post-acquisition as we believe tracking synergies post-acquisition would be impractical. That said, we have concerns about the relevance of disclosing acquisition-date expectations about synergies without then disclosing whether synergies are achieved. As there is no further reporting of performance against expected synergies in future years to establish whether these have been achieved (unless, for business combinations classified as "strategic", the synergies are identified as a key objective and management continues to monitor the related targets), it would be difficult for users to identify management over-optimism.

95. Our broader concern is that the proposals would require entities to disclose quantitative estimates of expected synergies. As the proposals are intended to provide users with insight into management decision making and the entity's acquisition-date objectives, we believe the proposed requirements around disclosure of synergies are far too prescriptive. In our experience, it can be hard to identify and estimate synergies until after the business combination. We do not believe that management always considers estimates of expected synergies when making acquisition decisions, or that management always documents quantitative estimates of expected synergies. In these cases, the proposed requirements in paragraph B64(ea) could lead to preparers estimating expected synergies for the purpose of disclosure requirements rather than to inform their decision-making. In some cases, these estimates will be made after the event. Such estimates will not provide users with useful insight into management's decision-making process for the business combination and will therefore be of questionable relevance.

96. The proposed requirements may create particular challenges depending on the rationale for the business combination. Quantifiable synergies are not always the driver for a business combination. The business combination may have been made to achieve longer-term strategic synergies which may be difficult to quantify in the short-term. Alternatively, the business combination may have been entered into for another reason (for example, to increase market share, to diversify or enter into a distinct or new line of business, or for reasons related to risks faced by the acquiring group), making it difficult to quantify synergies.

97. In all cases, we would question the reliability of quantitative information regarding expected synergies. In our experience, such estimates are inherently unreliable, even when developed as part of due diligence. We are concerned that by assigning a number or a range to expected synergies, users might be given a false level of confidence in the information.

98. Additionally, we have concerns about the auditability of quantitative estimates of expected synergies. For example, management expectations may be overly optimistic, which would create challenges for auditors.

99. We recommend that the IASB develops more flexible requirements with respect to disclosure of expected synergies. We would support disclosure of only qualitative information where this reflects management decision making processes and avoids the inclusion of unreliable information in the financial statements. Qualitative disclosure may better allow preparers to explain acquisition-date expectations, performance against these expectations and reasons why actual performance differs from expected performance. Additionally, qualitative requirements are likely to create fewer challenges in situations where the strategic rationale for the business combination is not related to expected synergies, as well as being more proportionate for preparers with limited resources.

100. As noted in paragraph 28 above, we recommend that the requirements include a rebuttable presumption that an expected synergy will be included in disclosures where it is referred to in a public offer document such as a prospectus.

Interaction with the proposed exemption

101. As explained in our response to Question 3, we are concerned that paragraph B64(ea) could be interpreted as requiring detailed, granular disclosures, which may lead to overuse of the proposed seriously prejudicial exemption.

Contribution of the acquired business

102. We do not agree with the proposals in paragraph B64(q)(ii) that the basis of preparation of information that results in disclosure to help users of the financial statements forecast future performance of the combined entity should be described as an accounting policy (a term which generally relates to the preparation and presentation of the financial statements, rather than to disclosure notes). We do not believe that the basis of preparation of information about the disclosure of one particular business combination should necessarily apply to all future business combinations. We recommend that the IASB instead refers to methodology, assumptions and estimates in this respect.

Question 6 – Changes to the impairment test

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?

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103. We regret that the IASB has not pursued the headroom approach and believe that such an approach may have been more effective in reducing the impact of shielding than the IASB's proposed approach.

104. We broadly agree with the proposed amendments to IAS 36 to replace the phrase "goodwill is monitored" with "business associated with the goodwill is monitored", as this is a better description of management activity. Management monitors the business, not the goodwill.

105. However, we do not believe that paragraph 80A is a helpful addition to IAS 36. As drafted, we anticipate that paragraph 80A will cause problems and inconsistent application in practice. Specifically, the proposals require an entity to "determine the lowest level for which there is financial information about the cash-generating units … that management regularly uses to monitor the business associated with the goodwill". Difficulties arise in particular because "management" is not defined and the nature of management monitoring of "the business associated with the goodwill" is not explained. Further, while paragraph 80A(b) does state "That financial information reflects how the benefits expected from the synergies of the combination are managed", this appears to be positioned as an assertion. Management may be monitoring the business associated with the goodwill for other purposes, and may not link the first and second sentences of paragraph 80A(b) when determining the appropriate level for conducting an impairment review.

106. As a result of these points, paragraph 80A could be interpreted as requiring impairment reviews to be performed at a very low level within the business, for example, at the level of a single retail outlet that is monitored by an area manager (which would not be reflective of where the synergies arising from the business combination would benefit).

107. Nevertheless, we anticipate that many entities applying paragraph 80A might still allocate goodwill for impairment testing purposes at a much higher level, ie, the operating segment level (given that management is not defined). This is often the level at which the business and the related synergies is monitored by key management personnel of the reporting entity. In our view, paragraph 80A is confusing and will lead to inconsistent application in practice.

108. If the IASB wishes to ensure that preparers do not default to the operating segment level when performing an impairment review where this is otherwise not appropriate, we believe that it will be necessary to introduce a rules-based requirement. We are happy to discuss potential options for such a requirement with the IASB.

109. We recommend that the IASB requires targeted disclosures for key judgements, for example, an explanation of the basis of how goodwill allocation to cash-generating units has been performed.

Question 7 – Changes to the impairment test: Value in use

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?

110. We are broadly supportive of proposals to remove a constraint on cash flows used to calculate value in use, and to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. We believe these changes will helpfully align figures used in the value in use calculation to the amounts used by management in budgets and forecasts.

111. We anticipate some application issues in determining whether there are future cash flows associated with the current potential of an asset (paragraph 44A(b)), and recommend the IASB clarifies requirements or adds guidance in this respect. For example, where an entity's budget includes cash flows that require regulatory approval, such as to enhance an asset, should these budgeted cash flows be considered when assessing the asset's current potential?

112. We recommend that the IASB requires targeted, specific disclosures to explain key assumptions where entities include estimates of future cash flows associated with enhancing an asset in value in use calculations (for example, making reference to expected synergies).

113. We also recommend that the IASB develops further guidance (beyond paragraph BCZ85), perhaps in the illustrative examples or as educational guidance outside the standard, on adjustments needed when calculating post-tax figures in order to give a post-tax value in use that is equivalent to the pre-tax calculation. For example, the IASB could helpfully provide guidance on how deferred tax balances should be brought into the carrying value of the cash-generating unit or on how post-tax cash flows are adjusted from the actual tax cash flows. This is a difficult area and additional guidance will help preparers' understanding of the requirements.

114. There are other application areas in impairment testing which would benefit from additional guidance and could be considered in a future agenda consultation. For example, the IASB may wish to consider a project to produce guidance on how to deal with working capital when preparing discounted cash flow calculations. The IASB might also wish to consider whether there are application issues associated with the restriction on reversing impairments just because of the passage of time (IAS 36 paragraph 116). We understand there is some diversity in practice associated with the interpretation of this restriction.

Question 8 – Proposed amendments to IFRS 19 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 pre-tax or post-tax (paragraph 193 of the Subsidiaries Standard).***

See paragraphs BC252–BC256.

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

115. While we have some concerns about the disclosures required by the proposed amendments to IFRS 3, we note that entities applying IFRS 19 *Subsidiaries without Public Accountability: Disclosures* will, in many cases, only be required to make the required disclosures if the entity prepares its own consolidated financial statements. This will not be the case for most entities applying IFRS 19 and consequently only a small subset of subsidiaries will be affected by these disclosures.
116. Where entities applying IFRS 19 do prepare consolidated financial statements, it seems reasonable that they are required to make disclosures around the performance of business combinations. However, we are concerned that management at the reporting entity may not have access to information about key targets or assessment of synergies. For example, monitoring of performance against targets and assessment of synergies may be undertaken by the management of the ultimate parent company rather than the reporting entity.
117. Our comments on the IASB's proposals for disclosures in IFRS 3, for example on the proposed disclosures about expected synergies, would apply equally to the disclosure requirements in IFRS 19.

Question 9 – Transition

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.

118. We agree that new requirements in IFRS 3 and IAS 36 should be applied prospectively without restating comparative information.
119. However, we believe there should be specific relief for first-time adopters, in which case we believe the requirements should apply prospectively from transition. We anticipate that first-time adopters are likely to experience difficulty in disclosing information about past business combinations, making retrospective application impracticable.
120. We believe the proposed transition arrangements for IAS 36 will create difficulties for entities. Specifically, any impairments performed within a financial year but before the effective date might be performed on a different basis than impairments performed after the effective date. We recommend that the IASB amends proposed paragraph 140O to avoid this potential issue, ie, the transition requirements for the amendments to IFRS 3 and IAS 36 should be aligned and both apply from the beginning of the relevant financial year.