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Comments on IASB/ED/2024/1 Business Combinations— Disclosures, Goodwill and Impairment, Proposed amendments to IFRS 3 and IAS 36

FAR, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the Exposure Draft Business Combinations—Disclosures, Goodwill and Impairment, Proposed amendments to IFRS 3 and IAS 36.

Summary of FAR's comment letter response

In general, FAR supports the IASB's proposal of additional disclosure requirements in IFRS 3 that will provide users with more useful information about business combinations but have some concerns as explained in appendix 1. FAR is also positive to the proposed amendments to IAS 36 and welcomes the objective to reduce goodwill shielding and to simplify the impairment tests by allowing inclusion of cash flows from future restructuring or cash flows arising from improving or enhancing an asset's performance, and by removing the pre-tax cash flow requirement.

For further details of FAR's responses, please see Appendix 1.

Other general comments

Impact on interim disclosures (IAS 34)

IAS 34 paragraph 16A(i) requires that entities in their interim reports disclose information about the effect of changes in the composition of the entity during the interim period, including business combinations. In the case of business combinations, the entity shall disclose the information required by IFRS 3. One of the proposed new disclosure requirements in IFRS 3 relates to additional disclosures regarding each strategic business combination (paragraph B67A). According to paragraph B67A, the acquirer shall, for each strategic business combination, disclose (a) in the year of acquisition, the acquisition date key objectives and the related targets and (b) in the year of acquisition and in each subsequent reporting period, the extent to which the acquisition date key objectives and the related targets are being met. This information shall include information about actual performance being reviewed to determine whether acquisition-date key objectives and the related targets are being met; and a statement of whether actual performance is meeting or has met the acquisition-date key objectives and related targets.

Since IAS 34 only requires disclosures under IFRS 3 relating to business combinations that have occurred in the interim period, the above disclosure requirements would only be applicable to strategic business combinations that have occurred in the interim period. It would not apply to interim periods in



subsequent years after the strategic business combination has occurred. FAR does not think that it is meaningful to only include in interim reports the disclosures under paragraph B67A in the year when the strategic business combination takes place. It would also be very difficult for an entity to provide a statement shortly after a significant business combination has taken place whether actual performance is meeting or has met the acquisition-date key objectives and related targets. FAR therefore suggests that this disclosure requirement would be excluded from the requirements in IAS 34 paragraph 16(i) as it does not make sense to require entities to apply such a requirement only in the interim reports for the actual year when a strategic business combination has taken place. In summary, FAR thinks that the requirements in paragraph B67A should only be applied when preparing a complete set of financial statements as described in IAS 1, i.e., in annual financial statements.

Auditability of information

FAR is somewhat concerned about the auditability of the information to be disclosed. Auditors are expected to be able to verify the disclosed information. FAR believes that some information will be difficult to audit, such as for example, forward looking performance information, information about expected synergies and information about actual performance of acquisition-date key objectives and targets. FAR recommends the IASB to coordinate its work with the IAASB before the final amendment is published, in order to gain an understanding of the auditability of the proposed disclosures.

Appendix 1

FAR's responses on the Questions addressed in the Exposure Draft

Question 1—Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 3) In the PIR of IFRS 3 and in responses to the Discussion Paper the IASB heard that:

- users need better information about business combinations to help them assess whether the price an entity paid for a business combination is reasonable and how the business combination performed after acquisition. In particular, users said they need information to help them assess the performance of a business combination against the targets the entity set at the time the business combination occurred (see paragraphs BC18–BC21).
- preparers of financial statements are concerned about the cost of disclosing that information. In particular, preparers said the information would be so commercially sensitive that its disclosure in financial statements should not be required and disclosing this information could expose an entity to increased litigation risk (see paragraph BC22).

Having considered this feedback, the IASB is proposing changes to the disclosure requirements in IFRS 3 that, in its view, appropriately balance the benefits and costs of requiring an entity to disclose this information.

It therefore expects that the proposed disclosure requirements would provide users with more useful information about the performance of a business combination at a reasonable cost. In particular, the IASB is proposing to require an entity to disclose information about the entity's acquisition-date key objectives and related targets for a business combination and whether these key objectives and related targets are being met (information about the performance of a business combination).

The IASB has responded to preparers' concerns about disclosing that information by proposing:

- to require this information for only a subset of an entity's business combinations— strategic business combinations (see question 2); and
- to exempt entities from disclosing some items of this information in specific circumstances (see question 3).

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

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



FAR's response

FAR welcomes the IASB's efforts to develop improved disclosure requirements in IFRS 3 that will provide users with more useful information about business combinations. Overall, the proposed information is in line with the request from users of financial statements to have improved information on the intended key objectives and targets of major business combinations and the success of these business combinations.

FAR welcomes the scope of “Strategic business combinations” i.e not including disclosure requirements for all business combinations. Overall, FAR considers that the IASB is trying to achieve the right balance to improve the disclosure requirements, at a reasonable cost to preparers.

However, FAR has the following reflection:

Series of business combinations

FAR believes that entities should be able to assess a series of business combinations as a combined single strategic business combination and as such provide aggregated information related to these business combinations included in the overall strategic acquisition plan. FAR encourages the IASB to include guidance about series of business combinations in the amended standard.

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?



FAR's response

FAR generally supports the proposal to require an entity to disclose information about the performance of a strategic business combination, i.e. 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.

However, FAR believes that a strategic business combination will not necessarily be one for which the entity *is put at serious risk of failing to achieve its overall business strategy* if the acquired business fails to meet any of the acquisition-date key objectives. In addition, this statement seems to be inconsistent with the proposed thresholds (10% measures). It would be sufficient to describe a strategic business combination as a business combination of strategic value to the entity.

Threshold approach – Proposed thresholds

FAR generally supports the threshold approach. FAR believes that the proposed quantitative and qualitative thresholds are reasonable. However, there may be business combinations captured by the thresholds that management consider to be non-strategic to the entity, and the other way around, strategic business combinations not captured as the thresholds are not met. There might for example be instances where an entity temporarily, in a given year, presents a close to zero operating profit or loss and with the proposed threshold of 10% in absolute terms of the group's consolidated operating profit or loss, all business combinations carried out in that single year would be required to be presented as strategic. FAR encourages the IASB to reconsider whether the operating profit or loss threshold should be a threshold in isolation or if that threshold should be combined with other indicators in order to determine strategic business combinations.

In addition, FAR encourages the IASB to reconsider the wording in paragraph B67C(c) related to the qualitative thresholds. FAR is of the opinion that a qualitative threshold where the business combination results in the acquirer entering *a new line of business or geographical area of operation that is essential to the overall business strategy* would be a more appropriate threshold. FAR believes that this is more aligned with the conceptual basis in IFRS 3 and the fact that 'major' is not stated before 'geographical area of operations' already creates discussions in practice in relation to IFRS 5.

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.

FAR's response

FAR welcomes the proposal 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 guidance is appropriate and we think it would be helpful for entities to not disclose information that would adventure commercially sensitive information or that would be harmful towards reaching its acquisition-date key objectives and related targets for a strategic business combination.

The exemptions should be reconsidered for every financial report where the information would be otherwise disclosed. FAR suggests including illustrative examples of specific circumstances in which the exemption would be applied or would not be applied to support preparers in appropriately applying 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:

- 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?

FAR's response

Information to disclose - information reviewed by key management

FAR agrees with the proposal that an entity should disclose the information reviewed by the entity's key management personnel.

Time period of disclosures

FAR agrees with the proposal that an entity should be required to disclose the information for as long as the entity's key management personnel review that information. FAR also supports the proposal for an entity to disclose the fact and the reason for not reviewing (not starting and stopping reviewing) the information.

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?



FAR's response

Expected synergies

FAR welcomes the IASB's proposal to add new disclosure objectives regarding acquisitions and disclose expected synergies, for better reflecting users' needs. The new disclosure objectives also complement the proposed disclosure requirements, as a response to users' feedback that they do not think that sufficient information about business combinations is currently provided for assessing the success, or lack thereof, of the acquisitions made. In general, FAR supports the proposal in paragraph B64 of the ED to disclose quantitative information, within the financial statements, about expected synergies from combining operations of the acquiree and the acquirer in the year of acquisition.

However, FAR believes that the information on expected synergies should only be a disclosure requirement if the expected synergies are available to the entity's management as part of the M&A process or other internal sources. FAR acknowledges that in cases an entity does not have the information available the costs of providing the information could outweigh the benefits.

FAR also recommends the IASB to provide guidance and more specific examples of expected synergies and how entities should address situations when expected synergies are non-quantitative in nature (e.g., a timing synergy that cannot be quantified). FAR considers that additional guidance would be helpful especially considering the proposal to provide quantitative information on each category of expected synergies as entities might not be familiar with the term "synergies" in the context of having to quantify expected synergies.

Strategic rationale for a business combination

FAR supports the IASB's proposal to replace the requirement to disclose the primary reasons with the strategic rationale for the business combination.

Contribution of the acquired business

FAR agrees with the proposal to replace the term "profit or loss" with "operating profit or loss" as defined in IFRS 18.

Classes of assets acquired and liabilities assumed

FAR agrees with the proposal to delete the word "major" from paragraph B64(i) and to include pension and financing liabilities in the illustrative example in paragraph IE72.

Deleting disclosure requirements

FAR agrees with the proposal to delete paragraph B64(h), B67(d)(iii) and B67(e).

Question 6—Changes to the impairment test

(paragraphs 80–81, 83, 85 and 134(a) of IAS 36)

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

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

- shielding; and
- management over-optimism.

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

Proposals to reduce shielding

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

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

Proposal to reduce management over-optimism

The IASB's view is that management over-optimism is, in part, better dealt with by enforcers and auditors than by amending IAS 36. Nonetheless, the IASB is proposing to amend IAS 36 to require an entity to disclose in which reportable segment a cash generating unit or group of cash-generating units containing goodwill is included (see paragraph 134(a) of IAS 36).

The IASB expects this information to provide users with better information about the assumptions used in the impairment test and therefore allow users to better assess whether an entity's assumptions are over-optimistic (see paragraph BC202).

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

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

FAR's response

FAR agrees with amending principles related to (a) in paragraph 80 of IAS 36. FAR agrees that the current wording tend to lead to goodwill often being tested for impairment on operating segment level and that the suggested changes may have potential to lead to goodwill being tested on lower levels of CGUs or groups of CGUs.

The potential effect of the change may depend on how ‘management’ in paragraph 80A(b), and ‘internal management purposes’ in paragraphs 80(a) and 80A, is interpreted. It is noticed in paragraph 83(b) that if financial information management uses for monitoring exists on a lower level than the level at which key management personnel review the performance, then goodwill is allocated to this lower level.

Issues may arise about which level of management, below key management personnel, to look at. Controllers may analyse detailed information on very low levels. An entity may have a head controller. Below key management personnel, an entity may have segment managers and below this several levels of management. Can it be presumed that if controllers analyse certain information, then this is done because a manager at some level may rely on it for its monitoring? Is a head controller ‘management’? What level of management should be considered to be ‘management’?

FAR realises that it is not possible to be specific about these questions, since entities are organised differently. However, since these aspects may affect the effectiveness of the new requirements, FAR believes that the application of the requirements would benefit from further reasoning about and emphasis on this aspect; potentially with illustrative examples.

FAR also agrees with the disclosure addition in paragraph 134(a) of IAS 36.

Disclosure that FAR believes would provide useful information and that touches the issue of shielding concerns the reallocation of goodwill in subsequent periods. FAR therefore suggests addition of such disclosure requirements in paragraph 134 – for instance about the reason for the reallocation, the amounts reallocated, the method of reallocation and the CGUs or groups of CGUs to/from which the amounts were reallocated.

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?

FAR's response

FAR agrees with the proposal to no longer prohibit the inclusions of 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. The reason for this is that this aligns the impairment test with the cash flow projections that are prepared, monitored and used internally for decision-making, and makes the impairment test easier to understand, perform, audit and enforce.

FAR agrees with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. Removing this requirement would make the impairment test easier to understand by aligning it with valuation practice and not require entities to calculate pre-tax discount rates solely to satisfy the disclosure requirement in IAS 36.

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

Disclosures The IASB proposes to amend the forthcoming IFRS X Subsidiaries without Public Accountability:

Disclosures (Subsidiaries Standard) to require eligible subsidiaries applying the Subsidiaries Standard to disclose:

- information about the strategic rationale for a business combination (proposed paragraph 36(ca) of the Subsidiaries Standard);
- quantitative information about expected synergies, subject to an exemption in specific circumstances (proposed paragraphs 36(da) and 36A of the Subsidiaries Standard);
- information about the contribution of the acquired business (proposed paragraph 36(j) of the Subsidiaries Standard); and
- information about whether the discount rate used in calculating value in use is pretax or post-tax (paragraph 193 of the Subsidiaries Standard). See paragraphs BC252–BC256.

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

FAR's response

FAR has chosen not to respond to this question.

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.

FAR's response

FAR agrees with the proposal to require an entity to apply the amendments to IFRS 3 and IAS 36 prospectively from the effective date without restating comparative information. The reason for this is that the cost of applying the amendments retrospectively would outweigh the benefits from doing so.

Regarding IAS 36, FAR believes that potential confusion in practice can be avoided if it is explicitly stated whether existing allocation of goodwill should be reconsidered in accordance with the new requirements upon the prospective application of the amendments. According to paragraph 80, goodwill is allocated from the acquisition date and the reallocation paragraphs, 86 and 87, are not triggered by an amendment to IAS 36. Does this have the effect that existing goodwill is not reallocated upon the first prospective impairment tests in accordance with the amendments, or should existing goodwill be reallocated in the less shielding manner intended by the amendments? If the intention is that existing goodwill should be reallocated, on what basis should it be reallocated –relative values as required in paragraphs 86 and 87 or some other grounds?

Yours sincerely,



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