

# Invitation to Comment

## Call for comments on the UKEB Draft Comment Letter on IASB's *Exposure Draft Business Combinations–Disclosures, Goodwill and Impairment: Proposed amendments to IFRS 3 and IAS 36*

Deadline for completion of this Invitation to Comment:

Midday, Monday 1 July 2024

Please submit to:

[UKEndorsementBoard@endorsement-board.uk](mailto:UKEndorsementBoard@endorsement-board.uk)

### Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the UKEB Draft Comment Letter (DCL) on the [Exposure Draft Business Combinations–Disclosures, Goodwill and Impairment: Proposed amendments to IFRS 3 and IAS 36](#), published by the International Accounting Standards Board (IASB) on 14 March 2024. The IASB's comment period ends on 15 July 2024.

### UK endorsement and adoption process

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations. This DCL is intended to contribute to the IASB's due process. The views expressed by the UKEB in the DCL are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

### Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts prepared in accordance with international accounting standards.

## How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return it together with a completed 'Your Details' form to [UKEndorsementBoard@endorsement-board.uk](mailto:UKEndorsementBoard@endorsement-board.uk) by midday on Monday 1 July 2024.

**Brief responses providing views on individual questions are welcome, as well as comprehensive responses to all questions.**

## Privacy and other policies

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The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published, please provide the UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other response document submitted; therefore, only information that you wish to be published should be submitted in such responses.

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<sup>1</sup> These policies can be accessed from the footer in the UKEB website here: <https://www.endorsement-board.uk>

## Questions

### Proposed amendments to IFRS 3 *Business Combinations*

#### Disclosures: Strategic business combinations

1. The UKEB's draft comment letter recommends that another term, such as 'major', may be more appropriate than 'strategic' to describe the subset of the most important business combinations (see paragraph A7).

The UKEB also:

- a) recommends a principles-based approach to identifying the most important business combinations (see paragraph A8 and Appendix B); and
- b) proposes the addition of a further metric to the list of proposed quantitative thresholds (see paragraph A15).

Do you agree with these recommendations? Will this suggested approach capture the most important business combinations from the users' perspective? Do preparers have any practical concerns with implementing the recommendation? Do you agree with the proposed additional quantitative threshold? Please explain why or why not.

<b>Yes (b)</b>	<input checked="" type="checkbox"/>	<b>No (a)</b>	<input checked="" type="checkbox"/>
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Please include any comments you may have in response to question 1:

- a) We concur with the IASB that the disclosure requirements in proposed paragraph B67A should only apply to a subset of material business combinations. We also agree with the IASB's approach to determine this subset by applying thresholds proposed in paragraph B67C.

We acknowledge that there are mixed views on the IASB's proposed approach, but in our view none of the alternatives we are aware of provide a superior outcome in all aspects. For example, under the UKEB's proposed approach, we are concerned about the risk of inconsistent application of the rebuttable presumption, especially because the proposed "definition" of "strategic" in paragraph BC54 is not entirely aligned with the quantitative and qualitative thresholds proposed in paragraph B67C.

We support the IASB's proposal as a pragmatic solution, which is relatively straight forward to apply. Nevertheless, we concur with the UKEB that some

application guidance in respect of the determination of the qualitative threshold would be useful for preparers.

We concur with the UKEB that the quantitative thresholds of 10% on balance appear reasonable. We also concur with other stakeholders that a quantitative threshold based on “profit” could result in inconsistent outcomes and we therefore recommend that this threshold is removed.

We agree with the UKEB’s suggestion that an additional threshold based on market capitalisation as at the date of acquisition should be considered by the IASB, although it should not impose an additional burden on entities that do not have such data readily available i.e. it should only be an applicable threshold for equity-listed entities.

- b) We agree that the proposed term “strategic” to identify the subset of material acquisitions may not be the most appropriate terminology to use, particularly as businesses generally only undertake acquisitions if they are strategic. We, however, do not agree with the UKEB’s proposal to refer to them as “major”, as this term is already used in other standards, e.g. IFRS 8 *Operating Segments* to refer to *major* customers. The ED refers to “major” in paragraph B67C(c) in relation to *major* line of business or geographical area. Using the term in a different context could be confusing rather than provide a clearer description. Alternative suggestions could be to describe the subset of acquisitions as ‘reportable’ or ‘substantial’.

## Series of acquisitions

2. The UKEB draft comment letter also recommends, further disclosures about the most important business combinations when they occur in a ‘series’ (see paragraphs A10–A13).

Do you agree with these recommendations? Will these recommended disclosures lead to useful information for users of accounts about a ‘series’ of ‘strategic’ acquisitions? Is this recommendation practical for preparers to disclose information about a ‘series’ of ‘strategic’ acquisitions? Please explain why or why not.

<b>Yes</b>	<input checked="" type="checkbox"/>	<b>No</b>	<input type="checkbox"/>
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Please include any comments you may have in response to question 2:

We are in agreement that it can be useful to provide the information in paragraph B67A for a series of acquisitions collectively when they are executed to achieve a joint strategic objective, but individually these acquisitions would not qualify as “strategic”.

However, it is not clear how entities would determine whether a series of acquisitions meet the thresholds in paragraph B67C when the acquisitions are executed over

different reporting periods. If the disclosure is intended to only apply to acquisitions completed in the same reporting period, the disclosures may not provide relevant information.

Qualitative disclosures, such as those proposed in sub-paragraphs A13(a) and (b) of the UKEB’s draft comment letter which require a statement that individually non-strategic acquisitions are part of a joint objective and explanations of the strategic rationale, would provide relevant insights for users and could be applied to a series of acquisitions completed over more than one reporting period.

**Qualitative thresholds for ‘strategic’ business combinations**

- 3. To ensure that the IASB’s intentions, in relation to the qualitative thresholds are clearly understood, the UKEB draft comment letter recommends the inclusion of illustrative examples in IFRS 3 (see paragraph A21).

Do you agree with this recommendation? Please explain why or why not.

<b>Yes (a) and (b)</b>	<input checked="" type="checkbox"/>	<b>No (c)</b>	<input checked="" type="checkbox"/>
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Please include any comments you may have in response to question 3:

We concur with the concerns expressed by other stakeholders in sub-paragraphs (a) and (b) of paragraph A21 in the UKEB’s draft comment letter. We also agree that a clarification by the IASB that “major” refers to both line of business and geographical area is worthwhile and that some examples to demonstrate the application of the qualitative threshold could be useful for preparers.

We do not share the concerns articulated in sub-paragraph A21(c) in relation to the application of materiality and do not see the benefit of further clarification on this aspect by the IASB; the concept of materiality would apply to these proposed requirements in the same way in which it is applied to all requirements within IFRS Standards.

**Key objectives and targets – changed metrics**

- 4. The ED Basis for Conclusions (paragraph BC129 explains that when an entity changes the metrics it uses to monitor the subsequent performance of a business combination, it would not need to disclose those new metrics or performance against those changed metrics, unless it refines (i.e. narrows the range of) the targets. The UKEB recommends that this information is included in the application guidance, so that it is accessible and clarifies the requirements with regards to changed metrics (see paragraph A35).

Do you agree with this recommendation? Please explain why or why not.

<b>Yes</b>	<input checked="" type="checkbox"/>	<b>No</b>	<input type="checkbox"/>
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Please include any comments you may have in response to question 4:

We agree with the proposed suggestion by the UKEB, which in our view is an uncontentious improvement to the ED.

## Disclosures: Exemption from disclosing information

5. In relation to the proposed exemption, the UKEB's draft comment letter recommends that the IASB:
- a) changes the disclosure requirements about the reason for applying the exemption (see paragraphs A5, A23 and A46);
  - b) provides illustrative examples (see paragraph A25) of the disclosures; and
  - c) clarifies in the application guidance how an entity might 'sufficiently aggregate' information before invoking the exemption and when it may be used (see paragraphs A26 and A28).

Do you agree with these recommendations? Please explain why or why not.

<b>Yes (a), (b)</b>	<input checked="" type="checkbox"/>	<b>No (c)</b>	<input checked="" type="checkbox"/>
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Please include any comments you may have in response to question 5:

We concur with the IASB and UKEB that certain disclosure requirements should be subject to an exemption applicable when revealing information that could be harmful to the acquirer or acquiree following the acquisition. In exactly which situations this exemption should apply has attracted a lot of discussions and we acknowledge that it is difficult to strike the right balance between the interests of different stakeholders. That said we have the following observations in relation to the recommendations from the UKEB:

We support the UKEB's suggestion in paragraph 11 of the UKEB's draft comment letter that the disclosure exemption could only be applied in extremely rare circumstances. In our view this provides the necessary backstop from the exemption being over-used.

- a) We acknowledge that disclosure of the reasons for using one or more of the disclosure exemptions could potentially be prejudicial to the acquirer. However, we are also concerned that no disclosure could disadvantage users. We concur with the UKEB that an illustrative example describing the granularity of the information expected to be disclosed could alleviate the concerns of users.

- b) We concur with the UKEB that examples which illustrate the application of the exemptions in real life situations would be helpful for preparers, in particularly when an acquirer could and could not invoke a disclosure exemption in relation to litigation risk and examples when an entity is eligible to use only one or two of the disclosure exemptions (i.e. indicating that the exemption must be applied on an individual disclosure-by-disclosure basis).
- c) We have stated in our response to question 6 below why we do not support the detailed quantitative disclosures in relation to synergies. In respect of the specific suggestion by the UKEB in paragraph A29 of the draft UKEB comment letter imposing restrictions on the level and nature of aggregation, we believe the disclosure requirements for synergies are already detailed and adding those proposed by the UKEB would make them even more complicated and hence we do not support this suggestion.

## Disclosures: Other proposals

### Quantitative information on expected synergies

6. The UKEB recommends that the IASB consider, adding to the application guidance, that the 'measurement period'<sup>2</sup> in IFRS 3 may be applied to the quantitative information on expected synergies (see paragraphs A44–A45).

Do you agree with this recommendation? Please explain why or why not.

<b>Yes</b>	<input checked="" type="checkbox"/>	<b>No</b>	<input type="checkbox"/>
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Please include any comments you may have in response to question 6:

We note that we do not support the disclosure requirement proposed in paragraph B64 (ea) in relation to expected synergies because in our view the scope of the information to be disclosed is too wide and producing the information will be onerous and costly for preparers, and assurance over the information will pose a challenge for auditors.

Despite our reservation about the disclosures, should the IASB's proposal go ahead as drafted, we believe the UKEB's specific suggestion on the measurement period has merit because it would align the remeasurement period for acquired assets and liabilities with that for disclosure of expected synergies.

<sup>2</sup> See IFRS 3.45-50. The measurement period is up to one year after the acquisition date, during which the acquirer may adjust the provisional amounts recognised for a business combination. The measurement period ends when the acquirer obtains the information it was seeking about facts and circumstances that existed at the acquisition date or learns that further information is unobtainable.

## Proposed amendments to IAS 36 *Impairment of Assets*

### Changes to the impairment test

7. The UKEB's draft comment letter recommends that the IASB require entities to disclose the amount of headroom (recoverable amount in excess of carrying value) there is for each CGU containing goodwill, where that headroom is marginal (see paragraph A56).

Do you agree with this recommendation? Is it practical for a preparer to provide this headroom information? Please explain why or why not.

<b>Yes</b>	<input type="checkbox"/>	<b>No</b>	<input checked="" type="checkbox"/>
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Please include any comments you may have in response to question 7:

<p>We do not concur with the UKEB's suggestion because in our view whilst it would be possible to provide the information on marginal headroom, we do not believe it provides useful <i>additional</i> information to that which is already required within IFRS Standards. The amount of headroom is dependent on the underlying calculations and determination of the recoverable amount of the CGU and hence will depend upon (a) management judgements and estimation uncertainties, which if significant/material are already required to be disclosed in accordance with IAS 1 <i>Presentation of Financial Statements</i>; and (b) key assumptions which are already required to be included in accordance with paragraph 134(d) of IAS 36 <i>Impairment of Assets</i> (IAS 36). Paragraph 134(f) of IAS 36 <i>Impairment of Assets</i> requires sensitivity and headroom disclosures when a reasonably possible change in key assumptions would give rise to an impairment, which in our view already addresses the information needs of users identified by the UKEB.</p>
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### Changes to the impairment test: Value in use

8. The UKEB's draft comment letter recommends that the IASB require disclosure when the recoverable amount includes cash flows from uncommitted restructuring or asset improvements, together with the associated risks (see paragraphs A58–A60).

Do you agree with this UKEB recommendation? Are these UKEB recommended disclosures practical for a preparer to provide? Please explain why or why not.

<b>Yes</b>	<input checked="" type="checkbox"/>	<b>No</b>	<input type="checkbox"/>
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Please include any comments you may have in response to question 8:



We are in agreement with the IASB proposals to remove the existing constraints on including uncommitted restructurings and asset improvements in the value in use calculations.

We also believe that it would be beneficial for the IASB to provide guidance on when it would be or would not be appropriate to include uncommitted restructurings and asset improvements to enhance consistency. Particularly also dealing with situations such as where regulatory approval is required for an asset improvement.

We concur with the UKEB's suggestion in paragraph A60 of the draft comment letter setting out additional disclosures on the basis of the calculation of value in use for asset improvements and any associated risks. However, we have concerns that additional disclosures in relation to uncommitted restructurings may be detrimental to those planned restructuring.

We would also recommend that in the UKEB's response, there is greater specificity of the additional disclosures the UKEB is suggesting, such as simply disclosing the fact that asset improvements have been included, or disclosing the amounts, expected timings and nature of those asset improvements for example.

## Proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures

9. The UKEB welcomes the reduced disclosure requirements for eligible subsidiaries, which will reduce the cost for preparers by only requiring the disclosure of information considered useful to users of those financial statements (see paragraphs A89–A91).

Do you agree with this view that the amended package of disclosure requirements for an eligible subsidiary balances the cost of providing the disclosures with the resulting benefits to users? Please explain why or why not.

<b>Yes</b>	<input type="checkbox"/>	<b>No</b>	<input checked="" type="checkbox"/>
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Please include any comments you may have in response to question 9:

IFRS 19 *Subsidiaries without Public Accountability: Disclosures* is not yet endorsed for use in the UK. Bearing that in mind, the number of situations when disclosures on business combinations would be required in the subsidiary's financial statements are limited. If the disclosure about the acquisitions is provided in a group's consolidated accounts, then in our view there is no need to repeat them in the subsidiary's financial statements, provided an appropriate reference is included.

## Costs and benefits

10. What are the benefits of the IASB's proposals?
11. What costs would be associated with the IASB's proposals? Please share any qualitative or quantitative information on the cost of implementing the proposals you may be aware of.

Please include any comments you may have in response to questions 10 and 11 in the box below.

Intentionally left blank

Please provide any final comments on the Exposure Draft in the box below.

In paragraph A32 of the draft comment letter, the UKEB supports the IASB's proposal in paragraph B67A that the information to be disclosed should be that reviewed by key management personnel. We do not support this proposal, nor alternative suggestions that it should be based on the chief operating decision maker (CODM). In our view information reviewed by any level of management responsible for the success of the acquisition should be the basis for the disclosures to as to ensure that adequate reporting is provided over all 'strategic' (or as otherwise termed) acquisitions that are monitored internally, rather than a focus being on the *level* of management of internal reporting. Specifically, the CODM level may be a too higher threshold for reporting success, and key management personal is a wider ranging level that can extend both higher and lower to that of the CODM.

## Thank you for completing this Invitation to Comment

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by midday on Monday 1 July 2024 to:  
[UKEndorsementBoard@endorsement-board.uk](mailto:UKEndorsementBoard@endorsement-board.uk)