

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

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 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

The data collected through responses to this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and adopting IFRS for use in the UK. For further information, please see our [Privacy Statements and Notices](#) and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)¹.

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.

¹ 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.

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

1(a) We agree with the recommendations to use a principles-based approach to identify strategic business combinations, but we challenge the inclusion of operating profit as a quantitative threshold. Operating profit as defined under IFRS 18 can be highly volatile and results in incomparability between insurers and other businesses where operating metrics are more stable, including other financial institutions such as banks who are able to make greater use of amortised cost under IFRS 9. In addition there will be lack of comparability between insurance companies that apply the FVTPL approach versus others that apply FVOCI under IFRS 9.

1(b) We note that market capitalisation as a threshold would only apply to acquisitions by a listed company, and we believe that it could be too volatile to be used as a quantitative threshold. In addition, we recommend alignment to the higher threshold of 25% used for Class 1 transactions under the UK Listing Rules to ensure that only those transactions meeting the definition of a ‘strategic’ in the basis for conclusion are captured.

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.

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

<p>We are supportive of the proposal to include further disclosures for a series of acquisitions that collectively meet the definition of a strategic transaction. However, we believe further clarification will be need in IFRS 3 on how to apply the quantitative thresholds if the acquisitions occur in different accounting periods.</p>
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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.

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

<p>We would suggest that the IASB exercises caution in developing the examples to ensure that it doesn't result in any implementation issues. In our experience, it is extremely challenging to provide sufficient context for the application of examples to be interpreted consistently.</p>
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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.

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

We have no further comments for this question.
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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.

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

<p>(a) We believe application of the exemption is a matter for the reporting entity to agree with its auditors in line with established practice of providing fair, balanced and understandable disclosures, noting that as drafted, this is a narrow exemption that would only apply in very limited circumstances.</p> <p>(b) Please see response on question 5(a) above.</p> <p>(c) We would welcome clarification from the IASB on the level of aggregation of synergies, in particular, whether synergies across different acquisitions or different categories can be aggregated to satisfy the disclosure objective.</p>

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'² 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.

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

We are supportive of this proposal as it ensures that the synergies disclosed are consistent with restatements in the acquisition balance sheet.
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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.

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

We believe the existing disclosure requirements in IAS 36.134(f) are sufficient, i.e. an entity is required to provide sensitivity analysis if a reasonably possible change in a
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² 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.

key assumption used in impairment testing would cause the carrying amount to exceed its recoverable amount.

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.

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

We have no further comments on this question.

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.

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

We are supportive of the reduced disclosures for eligible subsidiaries. The UKEB’s draft comment letter does not include paragraphs A89-A91.

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.

10. In our view investors monitor the performance of an acquisition by assessing whether it has had a positive impact on key metrics such as revenue, profit margins, net asset value of the combined group, and we normally provide additional information on material acquisitions outside of the financial statements in our results presentation, analyst pack or strategic report to provide useful information for investors. Therefore, the IASB's proposals are not expected to result in significant benefits to users of the financial statements.

11. We expect an increase in audit costs and the cost of compliance because the proposed performance disclosures for strategic acquisitions will bring non-IFRS measures that we use internally to measure performance into the scope of the financial statements.

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

We have no further comments on the Exposure Draft.

Thank you for completing this Invitation to Comment

Please submit this document
by midday on Monday 1 July 2024 to: