

Feedback Statement

Exposure Draft *Business Combinations –
Disclosures, Goodwill and Impairment*

Proposed amendments to IFRS 3 and IAS 36

Final Comment Letter (FCL)

July 2024

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 on the development of new standards, amendments and interpretations.

The comment letter to which this feedback statement relates forms part of those influencing activities and is intended to contribute to the IFRS Foundation's due process.

The views expressed by the UKEB in its comment letter 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.

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Purpose of this Feedback Statement

This feedback statement presents the views of UK stakeholders received during the UKEB's outreach activities on the [IASB's Exposure Draft *Business Combinations–Disclosures, Goodwill and Impairment*](#) issued on 14 March 2024, and explains how the UKEB's Final Comment Letter addressed those views.



The IASB's Exposure Draft

The proposed amendments to **IFRS 3 *Business Combinations*** include a number of targeted amendments, including:

- For a subset of an entity's material business combinations—termed 'strategic, disclosure requirements about the performance of a business combination against **acquisition-date key objectives and targets,**'
- a set of qualitative and quantitative thresholds to identify 'strategic' acquisitions (**threshold approach**),
- requirement to disclose **quantitative** information about **expected synergies** for each material acquisition, and
- an exemption, to address concerns around commercial sensitivity and litigation risk.

The proposed amendments to **IAS 36 *Impairment of Assets*** include:

- **clarifying how an entity allocates goodwill** to cash-generating units (CGUs)
- requiring an entity to **disclose in which reportable segment** a CGU or group of CGUs containing goodwill is included
- changes to how an entity **calculates** an asset's **value in use (VIU)**.

Finally, the ED also proposes:

- **reduced disclosures** to for inclusion in **IFRS 19 *Subsidiaries without Public Accountability: Disclosures*** exempting such entities from disclosing the proposed information for 'strategic' business combinations
- prospective **transition** - an entity would apply the amendments to IFRS 3, IAS 36 and IFRS 19 **prospectively** from the effective date, without restating comparative information, with no specific relief for first-time adopters.

Outreach approach

The UKEB’s outreach activities took place between February 2024 and July 2024 and were conducted to develop the UKEB Comment Letter on the ED.

All comments and views were considered in reaching the UKEB’s final assessment of the proposed amendments.

Outreach activities included:

- Discussions with the UKEB Advisory Groups (AGs):
 - Academic AG (9 members)
 - Accounting Firms and Institutes AG (11 members)
 - Investor AG (8 members)
 - Preparer AG (10 members)
- A roundtable with users and preparers
- Interviews with preparers and regulator
- Public consultation on the UKEB’s Draft Comment Letter (DCL).

The DCL was published on 31 May 2024, and open to stakeholder comment for 30 days until 1 July 2024.

Four written responses to the DCL were received, two from accounting firms, one from a preparer, and one from an industry body.

Stakeholder feedback, together with UKEB Advisory Group feedback and informal feedback received during the comment period, is summarised on the following pages.

Stakeholder feedback and UKEB’s response is set out in the pages that follow. However, as there was no substantive new evidence, there were few changes to the UKEB position set out in the DCL.

Stakeholder type	Organisations represented (excl. DCL responses)	Formal responses to DCL
Other National Standard Setters	1	-
UKEB Advisory Groups*	38	-
Industry body**	-	1
Other Preparers	6	1
Investor body	1	-
Other Users	1	-
Other Accounting firms and institutes	-	2
Regulator	1	-
Total	48	4

* four UKEB Advisory Groups with a total of 38 members

** one industry body representing 22 preparer firms

UKEB and stakeholder views

UKEB draft position	Further stakeholder views	UKEB final position
Q1. Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 3)		
<p>Agreed with the IASB's:</p> <ul style="list-style-type: none"> • objective for additional disclosures • proposed additional disclosures about the performance of business combinations <p>Supported an exemption (see Q3) but suggested improvements</p> <ul style="list-style-type: none"> • to ensure only used in appropriate circumstances • to address preparer concerns around disclosures / user concerns of obscuring important information. 	<p>Most stakeholders agreed with the UKEB's draft position, supporting the objective for additional performance disclosures.</p>	<p>Consistent with draft position.</p>
Q2. Disclosures: Strategic business combinations (proposed paragraph B67C of IFRS 3)		
<p>Expressed concern with:</p> <ul style="list-style-type: none"> • the term 'strategic' • using solely a 'threshold approach' - may not capture just the most important acquisitions. <p>Suggested:</p> <ul style="list-style-type: none"> ✓ a principles-based approach allowing the presumption to be rebutted based on the IASB's definition of a 'strategic' acquisition (BC54) ✓ additional guidance on 'operating profit' ✓ an additional quantitative threshold – market capitalisation (for listed companies) ✓ more guidance on how to disclose a 'series' of the most important acquisitions 	<ul style="list-style-type: none"> • Most shared the UKEB's concerns about the term 'strategic'. • Many considered the operating threshold should be removed • Some stakeholders questioned whether the rebuttable presumption would capture 'strategic' acquisitions not caught by the thresholds 	<p>Broadly consistent with the draft position – the UKEB recommended principles-based approach, including a rebuttable presumption should address concerns that the 10% threshold is too low.</p> <p>However, the UKEB recommendation was enhanced to ensure that so-called 'strategic' acquisitions not captured by the thresholds should be brought within scope.</p>

UKEB and stakeholder views

UKEB draft position	Further stakeholder views	UKEB final position
Q3. Disclosures: Exemption from disclosing information (proposed paragraphs B67D–B67G of IFRS 3)		
<p>Generally supportive of exemption and principle.</p> <p>Suggested the IASB:</p> <ul style="list-style-type: none"> ✓ clarify the exemption only to be used '<i>in extremely rare cases</i>' (similar to IAS 37) ✓ permit entities not to disclose the reason for invoking the exemption, if seriously prejudicial ✓ provide illustrative examples for disclosures of exemptions ✓ clarify how an entity might 'sufficiently aggregate' information rather than using the exemption 	<p>Stakeholders largely agreed with the UKEB's draft position, but there continued to be mixed views about whether the exemption is narrowly drafted (i.e. could not be used in all circumstances needed) or broadly defined (its subjective nature will be difficult for auditors to challenge).</p>	<p>Broadly retained draft position, as the UKEB suggestion to limit the use of the exemption to "<i>extremely rare cases</i>", is consistent with IAS 37 <i>Provisions, Contingent Assets and Contingent Liabilities</i> and it is expected there would be a discussion between entities and auditors about appropriate use.</p> <p>Removed suggestion to provide illustrative examples, as these could lead to boilerplate disclosures.</p>
Q4. Disclosures: Identifying information to be disclosed (proposed paragraphs B67A–B67B of IFRS 3)		
<ul style="list-style-type: none"> • Supported the IASB proposal that the information required to be disclosed for 'strategic' business combinations should be that reviewed and monitored by KMP. • Agreed that the core two-year period is a reasonable timeframe. • Supported the proposal not to disclose changed metrics, unless it refines i.e. narrows the range of the targets, as explained in the Basis for Conclusions (BC129). However, suggested that the IASB includes the guidance on changed metrics in the body of the standard. 	<p>Most stakeholders agreed with the UKEB's draft position.</p>	<p>Retained draft position.</p>

UKEB draft position	Further stakeholder views	UKEB final position
Q6. Changes to the impairment test in IAS 36 (paragraphs 80–81, 83, 85 and 134(a))		
<ul style="list-style-type: none"> Supported the IASB’s proposed additional paragraphs 80A and 80B to clarify how to allocate goodwill. Cautioned the IASB that this clarification may not change practice and therefore may not achieve the intended reduction in shielding of goodwill. Supported the disclosure of reportable segments in which CGUs containing goodwill are included. Suggested requiring the disclosure of the amount of headroom, where headroom is marginal. 	<p>Most stakeholders agreed that the proposed clarifications may not have the intended consequences to change practice and therefore do not go far enough to reduce shielding of goodwill.</p> <p>Suggestions included closing the loophole, whereby management can re-pool CGUs and move goodwill without disclosure.</p> <p>Many stakeholders thought that existing disclosure requirements relating to headroom were sufficient.</p>	<p>Broadly retained DCL position. Added suggestion that entities disclose how they determine the CGUs to which goodwill is allocated and any changes in CGUs since prior period, to reduce the risk of shielding.</p> <p>Removed suggestion to require specific headroom disclosure.</p>
Q7. Changes to the impairment test in IAS 36: Value in use calculation(paragraphs 33, 44–51, 55, 130(g), 134(d)(v),A20)		
<ul style="list-style-type: none"> Supported proposed changes to VIU in principle. To mitigate risk of management over-optimistic, suggested adding a requirement to disclose: <ul style="list-style-type: none"> when recoverable amount includes cash flows from uncommitted restructuring and asset enhancement, the associated risks of including such cash flows. Welcomed the proposal to permit the use of post-tax cash flows and post-tax discounts rates in calculating VIU to align with current practice. 	<p>Whilst the majority of stakeholders agreed with the UKEB’s draft position supporting the removal of the constraint on uncommitted restructuring cash flows, concern continued that it would result in delayed impairment.</p> <p>Almost all stakeholders supported the use of post-tax cash flows and post-tax discount rates.</p>	<p>Broadly consistent with DCL position, except to enhance UKEB recommendation to disclose uncommitted restructuring cash flows included in VIU.</p>

UKEB and stakeholder views

UKEB draft position	Further stakeholder views	UKEB final position
Q8. Proposed amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures		
<p>Welcomed 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.</p>	<p>Most stakeholders agreed with the UKEB’s draft position.</p> <p>Some stakeholders suggested that:</p> <ul style="list-style-type: none"> quantitative information on expected synergies should not be required for eligible subsidiaries without public accountability, and required only for listed entities if disclosures about acquisitions are provided in the group’s consolidated financial statements, there should not be a requirement to disclose in the subsidiary’s accounts, provided an appropriate cross-reference is included. 	<p>Consistent with draft position.</p>
Q9. Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard IFRS 19)		
<ul style="list-style-type: none"> Not aware of any significant concerns with the prospective transition requirements. Not aware of any concerns with not providing relief for first-time adopters. 	<p>Most stakeholders agreed with the UKEB’s draft position.</p>	<p>Consistent with draft position.</p>

Disclaimer

This Feedback Statement has been produced in order to set out the UKEB's response to stakeholder comments received on the UKEB's Draft Comment Letter on the IASB's Exposure Draft *Business Combinations – Disclosures, Goodwill and Impairment* Proposed amendments to IFRS 3 and IAS 36 and should not be relied upon for any other purpose.

The views expressed in this Feedback Statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this Feedback Statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.



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