UK Endorsement Board

Dr Andreas Barckow
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[Date]

Dear Dr Barckow

Invitation to Comment: Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment*

1. The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS Accounting Standards for use in the UK and therefore is the UK's National Standard Setter for IFRS Accounting Standards. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations. This letter is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this 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.

2. There are currently approximately 1,500 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS.[1] In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option.[2]

3. The UKEB welcomes the opportunity to provide comment on the International Accounting Standards Board (IASB)'s Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment*. In developing this letter, we consulted with stakeholders in the UK, including preparers, accounting firms and institutes, academics, and users of financial statements.

4. The UKEB is broadly supportive of the package of proposed amendments to the disclosure requirements in IFRS 3 *Business Combinations* and the impairment test

1 UKEB calculation based on LSEG and Eikon data, May 2024. This calculation includes companies listed on the Main market as well as on the Alternative Investment Market (AIM).

2 UKEB estimate based on FAME, Company Watch and other proprietary data.

in IAS 36 *Impairment of Assets*. The proposed amendments would provide investors with better information about the post-acquisition performance of acquired entities.

5. Our main observations and recommendations, reflecting our UKEB outreach [to date][3] and desk-based research[4], are set out in the paragraphs that follow.

Proposed amendments to IFRS 3 *Business Combinations*

Identifying the most important business combinations

6. The UKEB broadly supports the IASB's proposals to require disclosure of information about the performance of business combinations, based on the acquirer's acquisition-date key metrics and related targets, for only a subset of the most important business combinations (the so-called 'strategic' business combinations) (see paragraphs A1–A6). We consider this strikes the right balance between the needs of users and the costs to preparers.

Terminology - strategic or major

7. We consider that the use of the term 'strategic acquisitions' does not reflect the transactions for which users are keen to obtain additional disclosures. Preparers tell us that they only undertake acquisitions if they are strategic. We understand from users that they would prefer additional, meaningful disclosures for acquisitions that are substantive for the business, and which will allow them to hold management to account. As such, we consider that another term, such as 'major', may be more appropriate than 'strategic' to describe this subset of the most important business combinations (see paragraph A7)

Principles-based identification

8. In addition, we consider that using only the proposed exhaustive list of quantitative and qualitative thresholds (the closed threshold approach), may not capture the most important acquisitions from a user's perspective. Instead, we recommend a principles-based approach to identifying the most important business combinations and set out a possible process to achieve this in

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3 UKEB outreach to date is primarily our UKEB Advisory Group meetings with accounting firms and institutes, academics, preparers, investors and other users of financial statements. The UKEB also held a joint user/preparer roundtable on 7 May 2024.and several one-to-one interviews with preparers throughout May 2024.

4 The Secretariat's desk-based research included reviewing: the IASB's work (staff papers, meeting summaries, etc) on the PIR of IFRS 3, the March 2020 Discussion Paper and the IASB's tentative decisions prior to the publication of the Exposure Draft; accounting manuals; UK regulator thematic reviews, including FRC Thematic Review Business Combinations published in September 2022.

Appendix B to this letter. Our recommendation is that a subset of 'strategic' acquisitions is identified by first applying both the quantitative and qualitative thresholds, as per the IASB's proposal. However, where an acquisition meets one or more of the qualitative or quantitative thresholds, an entity should be able to rebut the presumption that the acquisition is 'strategic' if it can demonstrate that the acquisition does not meet the overall description set out in paragraph BC54. The entity would be required to disclose the reason for the rebuttal and the acquisition would then not be subject to the additional disclosures for 'strategic' business combinations. This also demonstrates the importance of the description in paragraph BC54, which we recommend should be included in the standard itself.

9. We consider that if the IASB proceeds with a principles-based approach, there would be less concern over the proposed thresholds (see paragraphs A16–A17 and A20–A21), due to the focus on the description in the Basis for Conclusions paragraph BC54.

Seriously Prejudicial Exemption

10. The UKEB welcomes the proposal that 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 A22–A31). This should address some of the concerns from preparers about the cost and commercial sensitivity of disclosing information about material business combinations and 'strategic' business combinations.

11. However, to ensure the appropriate application of the exemption, the UKEB recommends that the IASB clarifies that the exemption would only be used in 'extremely rare cases'. Other suggestions to assist in the application of the exemption are included under question 3 in appendix A.

Proposed amendments to IAS 36 *Impairment of Assets*

12. We support the proposed amendments to IAS 36 that clarify the allocation of goodwill to cash-generating units (CGUs) (see paragraphs A52–A53) and require disclosure of the reportable segments that include a CGU or group of CGUs containing goodwill (see paragraphs A54–A55). However, we have some reservations about the extent to which these proposals will achieve the intended change.

13. To address users' concerns that impairment losses are sometimes recognised too late and that there is no transparency on 'close calls' for impairment losses that are not recognised, the UKEB recommends that the IASB includes requirements to

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UKEB UK Endorsement Board

disclose the amount of headroom for each CGU containing goodwill, where that headroom is marginal (see paragraph A56).

14. The UKEB broadly supports the IASB's efforts to reduce the cost and complexity of the impairment test and the proposed changes to the calculation of value in use (see paragraphs A57–A61), which applies to all assets tested for impairment in accordance with IAS 36. However, the UKEB recommends that the IASB introduce some disclosure requirements to address the risk that management use optimistic inputs when calculating value in use that could avoid or further delay the recognition of impairment losses, as discussed in more detail under question 7 in appendix A.

15. Responses to the IASB's specific questions about the ED proposals are included in appendix A to this letter.

16. If you have any questions about this response, please contact the UKEB project team at UKEndorsementBoard@endorsement-board.uk.

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

Appendix A: UKEB response to detailed questions in IASB Exposure Draft IASB/ED/2024/1 *Business Combinations—Disclosures, Goodwill and Impairment*

Appendix B: Proposed Flowchart - determination of 'strategic' business combinations

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Appendix A: UKEB response to detailed questions in IASB Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment*

Proposed amendments to IFRS 3 *Business Combinations*

Disclosures: Performance of a business combination

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

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- 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?

Disclosure objective

A1. The UKEB agrees with the IASB's objective for the disclosure proposals – to provide users with information to help them assess the post-acquisition performance of a business combination at a reasonable cost. Users of accounts tell us that they would like entities to provide better information on business combinations, in particular to help them assess performance after acquisition, against acquisition-date key objectives[5] and related targets[6].

A2. The UKEB supports the IASB's proposal to require an entity to disclose information about the performance of only 'strategic' business combinations (see Question 2 of this appendix) and support the proposal of an exemption (see Question 3 of this appendix). The IASB's proposal to limit the requirement for performance information to a subset of the most important business combinations may help achieve the balance between user's needs and preparers' concerns about the cost of providing the information.

5 The IASB proposes to add the following definition for key objective to IFRS 3: An objective (that is, a specific aim) for a business combination that is critical to the success of the business combination. A **key objective** is more specific than the strategic rationale for a business combination. Paragraph BC35 provides an example of an objective '*to increase sales of Entity A's (the acquirer) own Product W in new Territory Y using the acquired sales channels of Entity B (the acquiree)*'.

6 The IASB proposes to add the following definition for target to IFRS 3: A **target** describes the level of performance that will demonstrate whether a key objective for a business combination has been met. A target shall be specific enough for it to be possible to verify whether the related key objective is being met. A target is measured using a metric that could be denominated in currency units or another unit of measurement. BC38 provides examples of a target, such as '*additional revenue of CU100 million of Product V in Territory W in 202X compared to 202Y*' or '*increasing the number of customers for Product Z by 5,000 by 202X compared to 202Y*'.

Commercially sensitive information

A3. However, UK preparers still have some concerns about the risk of commercially sensitive information being disclosed, exposing them to increased litigation risk and potentially obscuring material information, all delivered at significant costs.

A4. They note that the proposed requirement to disclose the key objectives and targets to which the exemption has been applied and the reason for applying the exemption to each item, in itself risks disclosure of potentially seriously prejudicial and commercially sensitive information.

A5. We consider that one way to counteract this risk may be to remove the requirement for an entity to disclose the reason for invoking the exemption in a reporting period, where doing so is itself seriously prejudicial and commercially sensitive. The IASB could consider including additional requirements for the entity to disclose the reason for invoking the exemption at a future reporting date when the reason is no longer seriously prejudicial. This should ensure that users of accounts are provided with relevant information to assess management's stewardship and rationale at the earliest opportunity without exposing entities to litigation risk.

Integration of acquired business

A6. If an entity plans to integrate the acquired business, those disclosures against acquisition-date key objectives will be based on a combined business, since information about the acquired business in isolation may not be available. Some preparers questioned the usefulness of combined information on subsequent performance. However, users welcomed the proposals, and noted that often acquired business are integrated within a relatively short period of time after acquisition and therefore expected that key objectives and related targets would be for a combined business.

Disclosures: Strategic business combinations

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.

Question 2—Disclosures: Strategic business combinations (proposed paragraph B67C of IFRS 3)

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?

Terminology – strategic or major

A7. We consider that the concept of ‘strategic’ business combinations does not reflect the transactions for which users are keen to obtain additional disclosures. Preparers tell us that they undertake acquisitions only if they are strategic. We understand from users that they would prefer additional, meaningful disclosures for acquisitions that are substantive for the business, and which will allow them to hold management to account. As such, we consider that another term, such as ‘major’ may be more appropriate than ‘strategic’ to describe the subset of the most important business combinations.

Principles-based identification

A8. The UKEB is concerned that using only the proposed exhaustive list of quantitative and qualitative thresholds (the closed threshold approach), may not capture the most important acquisitions from a user perspective. Instead, we would recommend a principles-based approach to identifying the most important business combinations and we set out a possible process to achieve this in appendix B to this letter. Our recommendation is that a subset of ‘strategic’ acquisitions is identified by first applying both the quantitative and qualitative thresholds, as per the IASB’s proposal. However, where an acquisition meets one or more of the qualitative or quantitative thresholds, an entity should be able to rebut the presumption that the acquisition is ‘strategic’ if it can demonstrate that the acquisition does not meet the overall description set out in paragraph BC54.

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The entity would be required to disclose the reason for the rebuttal and the acquisition would then not be subject to the additional disclosures for 'strategic' business combinations. This also demonstrates the importance of the description in paragraph BC54, which we recommend should be included in the standard itself.

A9. We consider that if the IASB proceeds with a principles-based approach, there would be less concern over the proposed thresholds, (see paragraphs A16–A17 and A20–A21), due to the focus on the description in the Basis for Conclusions paragraph BC54.

Series of acquisitions

A10. Users of financial statements also want information about a 'series'[7] of business combinations that are collectively 'strategic', as they have been acquired to achieve the same strategic objective, even if they do not meet the qualitative or quantitative thresholds individually.

A11. Existing disclosure requirements for each material business combination in IFRS 3 relate to individually material or collectively material acquisitions[8], therefore it would seem logical to extend this approach to 'strategic' business combinations that are collectively 'strategic'.

A12. The IASB acknowledged this when devising these proposals. In the Basis for Conclusions (paragraph BC73), the IASB noted that the qualitative thresholds might at least help an entity to identify the first in a series of business combinations entered into to achieve the same strategic objective. For example, the first in a series of business combinations could result in an entity entering into a new line of business or geographical area, enabling the acquisition of other businesses in the future.

A13. The UKEB recommends that, since a company will be required to disclose the strategic rationale for each material business combination, the IASB could extend this requirement to disclose:

a) those material acquisitions with the same strategic rationale; and

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7 A 'series' of acquisitions refers to acquisitions of different entities (as opposed to step acquisitions in the same entity).

8 The existing application guidance paragraph B65 of IFRS 3 says" For individually immaterial business combinations occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph B64(e)–(q)".
The existing application guidance paragraph B67 of IFRS 3 says "the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:……."

b) whether or not an entity considers this series of acquisitions with the same strategic rationale to be 'strategic' (or 'major'), and if so, disclose the key objectives for that series at the acquisition date of the first in the series.

This will ensure that:

a) users receive a full picture of 'strategic' acquisitions undertaken by the entity; and

b) the disclosures reflect how management will monitor the combined businesses with a similar objective e.g. increase in market share in a specific geographical area.

Quantitative thresholds

A14. Whilst the quantitative threshold of 10% may be seen as too low by some stakeholders, overall, the UKEB is supportive, as they appear reasonable when compared with thresholds used by regulators and auditors across different jurisdictions in identifying important business combinations.

A15. In response to stakeholder feedback, we recommend that the IASB add market capitalisation (where relevant) to the list of quantitative thresholds. Note that this suggested additional threshold has been included in Figure 1 in appendix B, which sets out our recommended principles-based approach described in paragraph A8 above).

A16. Stakeholders highlighted concerns with the use of both 'revenue' and 'operating profit' (as defined by IFRS 18 *Presentation and Disclosure in Financial Statements*) to determine a 'strategic' business combination, due to the volatile nature of such metrics, and noted the following:

a) if either the acquirer or acquiree had exceptional items in the year prior to the acquisition, the metrics at the end of the reporting period prior to the acquisition, used for the threshold assessment, could be distorted.

b) the apparent inconsistency with the synergy categories proposed for quantitative information on expected synergies, where, for example, the strategic rationale for an acquisition might be the achievement of tax synergies.

A17. Some stakeholders suggested using 'operating profit before exceptional items', as opposed to 'operating profit'. However, the rebuttable presumption method, recommended in paragraph A8 above, should mitigate any such concerns with applying the quantitative thresholds.

Step acquisitions

A18. During our outreach, some stakeholders were unclear on how the quantitative thresholds would apply to partial[9] acquisitions and step[10] acquisitions. The UKEB understands that the proposals will require the thresholds to be applied to the total holding. For example, in a partial acquisition, if an entity acquires 60% of the acquiree, IFRS 3 requires that 100% is consolidated (with a non-controlling interest of 40%), and the quantitative thresholds would be applied to the 100% of revenue, operating profit and assets (including goodwill), and not the 60%. Similarly in a step acquisition, where, for example, an acquirer has a 40% holding and increases its holding to 60%, the thresholds would apply to the 100% of the acquiree's relative amounts (and not 60%, nor the 20% incremental holding).

A19. We recommend that application guidance be added to the standard to clarify the treatment of such partial and step acquisitions, to ensure there is no diversity in practice.

Qualitative thresholds

A20. The IASB's proposed qualitative thresholds are aimed at capturing business combinations that would represent a strategic shift for an entity, but that would not be captured by the quantitative thresholds. Our outreach identified some concerns with applying the qualitative thresholds, as set out in paragraph A21 below. We consider that our recommendation of a principle-based approach set out in paragraph A8 above would alleviate some of the concerns and ensure that the qualitative thresholds capture the relevant business combinations.

A21. However, should the IASB proceed with the proposed approach in the ED, it should be aware of the following concerns and related recommendations:

a) a lack of clarity amongst stakeholders in relation to the qualitative thresholds, arising from the inconsistency between the ED (see application guidance paragraph B67C[11]) and the Basis for Conclusions (see paragraphs BC55[12] and BC68[13]). The UKEB recommends the IASB clarify the thresholds by preceding both 'line of business' and 'geographical area'

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9 A 'partial' acquisition, is an initial acquisition of more than 50%, but less than 100% of the acquiree.

10 'Step' acquisitions, are multiple acquisitions of the same entity, where a subsequent acquisition leads to the acquirer obtaining control e.g. the acquirer owns a 40% stake and acquires a further 20% stake, so it becomes an acquisition, as opposed to an investment.

11 Application guidance paragraph B67C says "….c) the business combination resulted in the acquirer entering a new major line of business or geographical area of operations".

12 Basis for Conclusions paragraph BC55 says "….major new lines of business or geographies that are essential to the entity's overall business strategy….".

13 Basis for Conclusions Paragraph BC68 says "……entering a new major line of business or geographical area of operations".

with the word 'new' or 'new major', depending upon intended requirements[14]. Whilst we understand that the proposed thresholds are based on IFRS 5 requirements, the UKEB suggests that the words 'new major' should relate to both line of business and geographical area, since a 'new' geographical area in itself may not be 'strategic' enough to warrant separate disclosure.

b) uncertainty amongst stakeholders as to whether there would be a common understanding of the qualitative thresholds and therefore, they may be applied differently. For example, a new geographical area may be a region, a country or a continent. Similar concerns arise with determining new major lines of business. Applying materiality should help in this assessment (see comment below).

c) the potential for diversity in application of the qualitative thresholds, in particular from their interaction with the concept of materiality. The intention, set out in the Basis for Conclusions (paragraph BC53), is to identify a population of business combinations for which an entity would be required to disclose particular information. An entity would still assess materiality of the potential disclosures as usual. Should the IASB decide not to proceed with the UKEB recommendation in paragraph A8 above, the UKEB recommends the IASB provide illustrative examples, to help clarify how the concept of materiality would apply where the proposed qualitative thresholds may capture business combinations that the acquirer considers are immaterial.

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14 As noted in the Basis for Conclusions (paragraph BC69), these thresholds are based on the thresholds in paragraph 32 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* used to identify discontinued operations. The thresholds have been adapted to reflect the purchase of a business instead of the discontinuance of an operation. Paragraph 32 of IFRS 5 says "A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale".

Disclosures: Exemption from disclosing information

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.

Principle underpinning the proposed exemption

A22. The UKEB welcomes the proposed addition of an exemption in the ED, and the principle underpinning the exemption – that an entity be exempted from disclosing specified information that it would be required to make if such a disclosure can be expected to seriously prejudice the achievement of any of the entity's acquisition-date key objectives for the business combination (Basis for Conclusions paragraph BC79).

Exemption disclosure requirements

A23. During our outreach, there was general support for the exemption, however, both users and preparers raised concerns with its application. Preparers are concerned that the disclosure of the use of the exemption in itself may be commercially sensitive. Proposed paragraph B67D[15] includes two factors that an entity should consider before using the exemption i.e. being able to describe a specific reason for not disclosing an item of information that identifies the seriously prejudicial effect the entity expects to result from disclosing the information, and whether the information is publicly available. For example, if an entity made an acquisition, as part of a planned 'strategic' series of acquisitions to enter a new geographical market, then disclosing the fact that one of its key objective and related target was to achieve x % market share in that geography may seriously prejudice the entity's ability to carry out further acquisitions in that geographical area. See our UKEB recommendation in paragraph A5 above.

A24. In its recent thematic reviews on reporting by the UK's largest private companies[16] and on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*[17], the UK regulator, the Financial Reporting Council (the 'FRC') noted that the rationale for using an exemption is sometimes being taken without obvious justification[18].

A25. The UKEB recommends that the IASB provide illustrative examples of how such an exemption might be disclosed, for each item of information to which the

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15 Proposed paragraph B67D says "To determine whether an item of information is eligible for the exemption, an acquirer considers this non-exhaustive list of factors:
(a) the effect of disclosing the item of information—an entity must be able to describe a specific reason for not disclosing an item of information that identifies the seriously prejudicial effect the entity expects to result from disclosing the information. A general risk of a potential weakening of competitiveness due to disclosing an item of information is not, on its own, sufficient reason to apply the exemption. An entity shall not use the exemption to avoid disclosing an item of information only because that item of information might be considered unfavourably by the capital market.
(b) the public availability of information—for example, if an entity has made information publicly available, it would be inappropriate to apply the exemption to that information. Examples of publicly available documents include press releases, investor presentations and regulatory filings made by the entity that are available to the public".
Basis for Conclusion paragraphs BC90 notes that the application guidance would require an entity:
(a) to disclose, for each item of information to which an entity has applied the exemption, that it has applied the exemption and the reason for doing so.
(b) to consider whether, instead of applying the exemption, it is possible to disclose information in a different way—for example, at a sufficiently aggregated level—without prejudicing seriously the entity's acquisition-date key objectives for a business combination.
(c) to consider factors such as the effect of disclosing the information and the public availability of the information in determining whether the exemption is applicable.
(d) to reassess in each reporting period whether the item of information still qualifies for the exemption. If it is no longer appropriate to apply the exemption, the entity would be required to disclose the item of information previously exempted.

16 The FRC Thematic Review: Reporting by the UK's largest private companies was published January 2024.

17 The FRC Thematic Review: IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* published in October 2021, selected main market companies for review.

18 Neither IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, nor the UK Accounting Regulations (SI 2008/410) revenue disaggregation requirements, require a justification for the use of the exemption to be disclosed. When challenged to provide a rationale for the use of the exemption, some companies undertook to provide disclosures previously omitted under the exemption in coming years.

exemption can be applied, as well as an example of how previously exempt information that is no longer prejudicial be disclosed.

Exemption application guidance

A26. Some users are concerned about the proposed application guidance that accompanies the exemption (paragraphs B67D–B67G and Basis for Conclusions paragraphs BC90–BC107), which requires an entity to consider disclosing information at a sufficiently aggregated level, if doing so would resolve concerns of commercial sensitivity, before considering using the exemption. Users were concerned that if such aggregation was applied, in certain circumstances it may lead to loss of useful information that alone was not commercially sensitive. For example, where revenue synergies that were commercially sensitive are aggregated with cost synergies that were considered to be non-commercially sensitive.

A27. Those users recommend that they would be content to receive information about the cost synergies (assuming they were not commercially sensitive), and the exemption be applied to the revenue synergies (if they were commercially sensitive). We support this suggestion, as this would lead to more useful information being disclosed than information on the aggregated amount for more than one category of synergy, as users tell us they use the information differently.

A28. We understand that the proposed requirement is to permit aggregation in different ways, such as aggregation of total revenue synergy and total cost synergy for the same material acquisition, or aggregation of total revenue synergies, for example categories across material acquisitions with the same strategic rationale. However, the UKEB is not certain that it is clear how entities might aggregate certain items of information, and we recommend that the IASB clarify that aggregation would need to be made in a way that meets the overall objective of the disclosures.

A29. The UKEB recommends that the IASB does not permit further aggregation of categories of synergy, i.e. not permit the combining of total cost synergies with total revenue synergies, or other categories of synergy for a material business combination; this will ensure that important non-commercially sensitive information is retained for users. (See Question 5 of this appendix for more information on the requirement to disclose quantitative information on expected synergies for each material business combinations).

Appropriate use of exemption

A30. Users did not appear to be particularly concerned that the exemption would be used inappropriately and suggested that an entity would knowingly come under more scrutiny where it used an exemption, and therefore entities were likely to use the exemption in only limited circumstances.

A31. As noted in the Basis for Conclusion (paragraph BC92), the IASB considered specifying how often it expects entities to apply the exemption—for example, whether it expects the application of the exemption to be extremely rare, similar to the requirement in paragraph 92 of IAS 37[19], but decided against doing so. There is some diversity in the understanding of the application of the exemption and the UKEB recommends that the IASB clarify that it expects the exemption to only be used in 'extremely rare cases'.

Disclosures: Identifying information to be disclosed

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

19 Paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* says that "**in extremely rare cases**, disclosure of some or all of the information required by paragraphs 84–89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed".

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?

Management approach

A32. The UKEB agrees with the proposals that information required to be disclosed for 'strategic' business combinations should be that reviewed and monitored by key management personnel (KMP)[20]. Whilst some stakeholders suggested that Chief Operating Decision Maker (CODM)[21] may be a preferable level of management, we consider that the use of KMP aligns with the objective of providing the relevant performance information on the most important 'strategic' business combinations.

A33. The UKEB also welcomes the proposed clarification to IAS 36 paragraph 83(b), that the level of management for the purpose of monitoring the subsequent performance of a 'strategic' business combination may not be the same as the

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20 IAS 24 *Related Party Disclosures* defines key management personnel (KMP) as those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity [IAS24.9]. Other IFRS Accounting Standards use KMP to identify information to be disclosed by an entity—for example, paragraph 34(a) of IFRS 7 *Financial Instruments: Disclosures*.

21 IFRS 8 *Operating Segments* does not provide an absolute definition of the term 'Chief Operating Decision Maker' (CODM) but explains it is intended to mean a function rather than a particular executive with a specific title. The function is that of allocating resources to operating segments and assessing their performance.

level of management monitoring the business associated with goodwill for the purpose of impairment testing[22].

How long information is required to be disclosed

A34. The UKEB supports the proposed requirements to disclose if management either do not start, or stop, monitoring against acquisition-date key objectives and related targets as this will lead to decision useful information for users of accounts. We also agree that the core two full year periods after the year of acquisition is a reasonable timeframe during which an entity must disclose if management stops monitoring the performance of the acquisition against the acquisition-date key objectives and related targets, and to disclose the reason for stopping.

A35. The UKEB supports the proposal that if the acquirer changes the metrics it uses to monitor the acquired business (whilst it would need to disclose that it had stopped monitoring against the acquisition-date key objectives), 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, as explained in the Basis for Conclusions (paragraph BC129). However, 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.

Disclosures: Other proposals

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;

22 The level of management for the purpose of monitoring the subsequent performance of a 'strategic' business combination is intended to identify the most important information for the most important acquisitions. The level of management monitoring the business associated with goodwill for the purpose of impairment testing is intended to allocate goodwill at the lowest level within an entity at which management is monitoring the business associated with goodwill for the purpose of the impairment test.

* 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?

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New disclosure objectives (proposed paragraph 62A of IFRS 3)

A36. The UKEB supports the additional disclosure objectives in proposed paragraph 62A of IFRS 3[23], which provide the foundation for the proposed new disclosure requirements, to:

a) respond to users' need for better information about business combinations at the time of acquisition and on the subsequent performance of the most important acquisitions; and

b) allow users to assess those business combinations more effectively.

A37. These more specific disclosure objectives should enable preparers to understand better why users need a particular item of information and help entities disclose information that better meets the needs of users.

Requirements to disclose quantitative information about expected synergies in the year of acquisition (proposed paragraph B64(ea) of IFRS 3)

A38. The UKEB supports the new disclosure requirements in relation to the nature, timing and amount of expected synergies from a business combination, as it provides users with a better understanding of why an entity paid the price it did for the business combination.

A39. During our outreach, almost all stakeholders supported the IASB's decision not to define the word 'synergies', since the term appears to be widely understood[24], and existing paragraph B64(e) of IFRS 3 requires an entity to disclose qualitative information about expected synergies. Feedback suggests that entities do not fail to identify expected synergies appropriately for the current requirements in IFRS 3.

A40. The proposed requirement for quantitative information on expected synergies should enable companies to provide contextual and relevant information, rather than the often 'boilerplate' qualitative disclosures currently provided on expected synergies, as highlighted in the FRC's thematic review of business combinations[25]. Assigning a value to expected synergies should help companies ensure that other

23 Proposed paragraph 62A says "The acquirer shall disclose information that enables users of its financial statements to evaluate:
(a) the benefits an entity expects from a business combination when agreeing on the price to acquire a business; and
(b) for a strategic business combination (see paragraph B67C), the extent to which the benefits an entity expects from the business combination are being obtained".

24 As noted in the Basis for Conclusion paragraph BC160, most dictionaries define 'synergies' as arising from a combination of two or more items, and resulting in a combined performance or value greater than the sum of the items when considered separately.

25 FRC Thematic Review Business Combinations published in September 2022.

separately identifiable intangibles are recognised by the acquirer, although the option to use a range as opposed to a point estimate may result in less useful information. The UKEB agrees with the proposal that such estimates may be disclosed as a range, since it is more likely that entities will estimate the expected synergies as a range.

A41. The UKEB supports the proposal to provide quantitative information on expected synergies aggregated by category i.e. to disclose (as a point or as a range) revenue synergies, cost synergies, etc. Requiring more detailed cost synergies, such as employee-related cost synergies, might lead to disclosure of more sensitive information. Therefore, we think the proposal strikes the right balance between disclosure and maintaining confidentially of sensitive information and will address some preparer concerns raised during our outreach.

A42. The UKEB also supports the requirement to disclose when the benefits expected from the synergies are expected to start and how long they are expected to last, noting that this disclosure would require the acquirer to specify whether the benefits from the synergies are expected to be finite or indefinite. Some stakeholders expressed views that information on expected synergies was forward-looking and should not be required to be disclosed in the financial statements and would be better suited to the management commentary. However, users were broadly supportive of including this information in the notes to the financial statements due to the audit assurance provided.

A43. Some preparers did not concur with the IASB's view that expected synergies are fixed at the time of acquisition (see Basis for Conclusion paragraph BC139), with some suggesting that this information may not be available at the time of acquisition (for example, in a hostile takeover close to the end of the reporting period), and where available, may be highly judgemental and be costly to provide evidence that the assumptions made in those estimates are reasonable and supportable and why the range of synergies are deemed achievable.

A44. It was also noted that other information disclosed in the year of acquisition might be provisional and be adjusted in the 'measurement period'[26], but the same opportunity to adjust information about expected synergies is not proposed[27]. Therefore, information disclosed might be inconsistent if other provisional information is adjusted in the measurement period, and therefore of limited use to users.

26 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.

27 The Basis for Conclusions paragraph BC139 suggests that assumptions reflected in the acquisition price and the assets and liabilities recognised as a result of the business combination, including expected synergies, are fixed at the date of acquisition.

A45. The UKEB recommends that the 'measurement period' be applied to quantitative information on expected synergies, to provide an acquirer with the opportunity to update information on expected synergies where information comes to light in the 'measurement period' and other provisional figures have been adjusted, to ensure that information is consistent.

A46. The UKEB welcomes an exemption (see paragraphs A22–A31), where disclosing an item of quantitative information on expected synergies can be expected to prejudice seriously the achievement of any one of the acquirer's key objectives for the business combination. However, as noted in paragraph A23, some UK preparers' still have concerns with the exemption requirements to disclose the item to which the exemption has been applied and the reason for applying the exemption to each item. We make a recommendation in paragraph A5 to counteract the risk of disclosing seriously prejudicial and commercially sensitive information.

A47. As noted in paragraphs A26–A29, some users are also concerned about the proposed application guidance that accompanies the exemption, which requires entities to consider disclosing information at a sufficiently aggregated level to address concerns over disclosing commercially sensitive information, rather than use the exemption. However, due to the potential loss of useful information that could result, we make a recommendation to the IASB in paragraph A29 in order to provide users with the information they need.

The strategic rationale for a business combination (paragraph B64(d) of IFRS 3)

A48. The UKEB supports the IASB proposal to replace the requirement in the application guidance paragraph B64(d) of IFRS 3 to disclose the 'primary reasons' for a business combination, with a requirement to disclose the 'strategic rationale'[28] for the business combination, acknowledging that, per the Basis for Conclusions (paragraph BC165), the proposed requirement is intended to provide a clearer link between the objectives for a business combination and an entity's overall business strategy.

Contribution of the acquired business (paragraph B64(q) of IFRS 3)

A49. The UKEB supports the IASB proposal in relation to contribution of the acquired business. These should be helpful for users of financial statements to forecast future performance of the combined entity.

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28 Per the Basis for Conclusions (paragraph BC 164), the description of the strategic rationale is likely to be broad, for example, '*to expand the entity's geographical presence in Region Z by acquiring Entity B, which trades in Region Z*'.

Classes of assets acquired and liabilities assumed (paragraph B64(i) of IFRS 3)

A50. The UKEB supports the IASB proposal to improve the information entities disclose about the pension and financing liabilities assumed in a business combination. Users view such liabilities as part of the total capital employed in the business combination.

Deleting disclosure requirements (paragraphs B64(h), B67(d)(iii) and B67(e) of IFRS 3)

A51. The UKEB supports the IASB proposal to delete certain paragraphs from IFRS 3 that are duplicated in other IFRS Accounting Standards or became redundant subsequent to amendments to IFRS 3 in 2008.

Proposed amendments to IAS 36 *Impairment of Assets*

Changes to the impairment test

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?

Proposals to reduce shielding

How to allocate goodwill to cash-generating units (CGUs)

A52. The UKEB supports the addition of paragraphs 80A and 80B[29] to clarify that the CGU relevant for impairment testing is the lowest level at which management monitors the business associated with the goodwill, and that it should not be larger than an operating segment as defined by paragraph 5 of IFRS 8 before aggregation[30]. The change in focus to the business associated with the goodwill, as opposed to the goodwill, is also welcome since it is the business associated with goodwill that will be monitored, not the goodwill.

A53. However, the IASB should be aware that this requirement may not achieve the intended reduction in shielding of goodwill, since goodwill is not allocated to the CGU or group of CGUs expected to benefit from the goodwill, if financial information is not regularly received by management at that lowest level of CGUs to monitor the business associated with goodwill. Therefore, goodwill could be

29 IAS 36 paragraph 80A: In applying paragraph 80, an entity first applies paragraph 80(a) to determine the lowest level at which the business associated with the goodwill is monitored for internal management purposes. Applying paragraph 80(a) requires an entity:
(a) to identify the cash-generating units or groups of cash-generating units (see paragraph 81) expected to benefit from the synergies of the combination; and
(b) to then determine the lowest level for which there is financial information about the cash-generating units identified in paragraph 80A(a) that management regularly uses to monitor the business associated with the goodwill. That financial information reflects how the benefits expected from the synergies of the combination are managed.
Paragraph 80B: The requirement in paragraph 80(b) sets the highest level at which an entity is permitted to allocate goodwill for the purpose of applying paragraph 80(a) and is therefore applied only after paragraph 80(a) has been applied.

30 IFRS 8 *Operating Segments* permits (but does not require) operating segments to be aggregated for reporting purposes if, and only if, certain criteria are satisfied. Aggregation often improves the usefulness of the disclosures by avoiding excessive detail and focusing more readily on the overall trends and key information.

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more shielded than if the allocation of goodwill was based solely on the CGUs expected to benefit from the synergies.

Proposal to reduce management over-optimism

Disclose reportable segments which include a CGU or group of CGUs containing goodwill

A54. The UKEB supports the proposal requiring an entity to disclose the reportable segment in which a CGU or group of CGUs containing goodwill is included. This should not result in significant costs, since entities already have this information, and some entities already disclose this information voluntarily. Therefore, the benefits of increased transparency for users would outweigh any costs.

A55. The risk of management over-optimism is inherent in any impairment-only model. Requiring disclosure of the reportable segment in which a CGU containing goodwill is included would help users better assess and challenge the reasonableness of assumptions used in the impairment test. Users would be able to compare these assumptions with the information they receive about reportable segments and with their own assumptions about the future performance of those reportable segments. It aligns with the project objective of providing better information about business combinations.

A56. To address user's concerns that impairment losses are sometimes recognised too late and that there is no transparency on 'close calls' for impairment losses that are not recognised, the UKEB recommends that the IASB includes requirements for an entity to disclose the amount of headroom for each CGU containing goodwill, where that headroom is marginal. This will help users identify if there are any 'close calls' with regards to impairment losses not being recognised and may go some way to address the concern of users that impairment losses are sometimes recognised too late.

Changes to the impairment test: Value in use

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?

A57. The proposed changes to the calculation of value in use applies to all assets tested for impairment in accordance with IAS 36, and not solely goodwill. The IASB should be aware that, since impairment losses on certain assets (excluding goodwill) are permitted to be reversed, the proposed changes could lead to reversal of impairment for some assets.

Removal of constraint to allowing cash flows from future uncommitted restructuring and from improving or enhancing an asset's performance

A58. During our outreach, stakeholders suggested that removal of the constraint could increase the risk that management use over-optimistic inputs in calculating value in use, so that the results are contrary to the IASB's aim – timely recognition of impairment losses. An increase in the measured value in use could therefore delay the recognition of impairment losses; if the measured value in use (VIU) increases and is higher than the fair value less costs of disposal, and if the VIU (recoverable amount) is higher than the carrying value, it could avoid or further delay the recognition of any impairment.

A59. Whilst the UKEB recognises some stakeholder concerns, the UKEB agrees with the proposal to remove the constraint to reduce the cost and complexity of the value in use calculation, by using internally consistent assumptions. However, we recommend to the IASB that the proposal is redrafted so that entities are required to include cash flows from uncommitted restructuring or asset improvements.

A60. The IASB proposal to remove the restriction on including cash flows arising from uncommitted restructuring or asset improvements could lead to inconsistent treatment and lack of comparability. The UKEB also recommends that the potential lack of consistency and comparability could be addressed by requiring entities to:

a) disclose where recoverable amount includes cash flows from uncommitted restructuring or asset improvements; and

b) disclose the risks associated with including such cash flows.

Permit the use of post-tax cash flows and post-tax discount rates

A61. The UKEB welcomes the proposal to permit the use of post-tax cash flows and post-tax discounts rates in calculating value in use and to disclose which rate has been used, since it is anticipated that this will align the standard with current practice.

Proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures

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 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?

A62. 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.

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Transition

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.

A63. The UKEB is not aware of any significant concerns with the prospective transition requirements. The prospective requirements should provide enough time for internal controls and process to be updated. Not requiring restatement of comparative information will reduce any burden on preparers and remove any potential for use of hindsight in providing the information.

A64. The UKEB is not aware of any concerns with not providing relief for first-time adopters, given that they are expected to plan their transition to IFRS Accounting Standards with enough time.

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Appendix B: Proposed Flowchart

Figure 1: UKEB recommendation - determination of 'strategic'* business combinations

Does the acquired business exceed **any one of** the quantitative thresholds or qualitative thresholds?

<u>Quantitative thresholds:</u>

a) in the most recent annual reporting period before the acquisition date:
   (i) the absolute amount of the acquiree's operating profit or loss is 10 per cent or more of the absolute amount of the acquirer's consolidated operating profit or loss; or
   (ii) the acquiree's revenue is 10 per cent or more of the acquirer's consolidated revenue;

   (Paragraph B67C(a))

b) the amount recognised as of the acquisition date for all assets acquired (including goodwill) is 10 per cent or more of the carrying amount of the total assets recognised in the acquirer's consolidated statement of financial position as at the acquirer's most recent reporting period date before the acquisition date;
   (Paragraph B67C(b))

c) the market capital of the acquiree is 10 per cent or more of the market capital of the acquirer as of the acquisition date (see paragraph A15 in appendix A).

<u>Qualitative thresholds:</u>

the business combination resulted in the acquirer entering a new major line of business or geographical area of operations.

Yes

Does the acquired business meet the description of a 'strategic'* business combination?

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*". (Paragraph BC54)

No

Yes

Do you wish to rebut the presumption that the acquired business is 'strategic'*, because it does not meet the definition?

Yes

No

Disclose the reason for using the rebuttal

Disclose, in the year of acquisition:

- the acquisition-date key objectives and the related targets. (Paragraph B67A(a))

Disclose, in the year of acquisition, and in each subsequent reporting period for as long as key management personnel review actual performance (paragraph B67B), information as reviewed by key management personnel about:

- actual performance; and
- a statement of whether actual performance is meeting or has met an acquisition-date key objective and the related targets.

(Paragraph B67A(b))

No

The acquired business is not classified as a 'strategic'* business combination, so no further disclosures are required (Paragraph B67A)

*The UKEB recommend that 'strategic' business combinations are termed 'major' business combinations