

Andreas Barckow
Chair, International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

11 July 2024

Dear Mr.Barckow,

**Exposure Draft - Business Combinations—Disclosures, Goodwill and Impairment
Proposed amendments to IFRS 3 and IAS 36**

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the Exposure Draft on Disclosures, Goodwill and Impairment Proposed amendments to IFRS 3 and IAS 36.

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors, and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is registered on the EU Transparency Register, registration number 65110063986-76.

We support the IASB efforts to amend IFRS 3 and IAS 36. We agree that relevant and meaningful disclosures are needed to enable users of the financial statements to make their judgements on the performance of strategic business combinations and adjust their forecasts accordingly.

However, we have concerns about the nature and extent of the proposed disclosures, the practicalities of tracking strategic business combinations, and the planned use of a threshold-based approach.

We welcome the proposed exemption from disclosing information when such information may be commercially sensitive or detrimental to the reporting entity. We have however concerns that the scope of the proposals may not be wide enough.

We support the changes to the impairment test which will bring a further degree of alignment with the management view.

Association for Financial Markets in Europe

London Office: Level 10, 20 Churchill Place, London E14 5HJ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 883 5540

Frankfurt Office: Neue Mainzer Straße 75, 60311 Frankfurt am Main, Germany T:+ 49 (0)69 710 456 660

www.afme.eu

We agree that the proposed amendments should only apply prospectively. Retrospective application would entail a very complex and costly implementation project for our members. We also recommend that the amendments should only be required for annual reporting periods given the complexity of obtaining the information for interim reporting periods.

Our detailed responses to the questions set out in the Exposure Draft are included in the Appendix to this letter.

We trust that our comments are helpful, and we look forward to engaging further with the IASB on the Exposure Draft.

Yours sincerely,

Ian Sandles
Director, Tax and Accounting
ian.sandles@afme.eu
Tel: +44 20 3828 2708

Louise Rodger
Managing Director, Compliance
louise.rodger@afme.eu
Tel: +44 20 3828 2742

APPENDIX

March 2024 Exposure Draft

Business Combinations—Disclosures, Goodwill and Impairment

Proposed amendments to IFRS 3 and IAS 36

Question 1—Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 3)

In the PIR of IFRS 3 and in responses to the Discussion Paper the IASB heard that:

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

Having considered this feedback, the IASB is proposing changes to the disclosure requirements in IFRS 3 that, in its view, appropriately balance the benefits and costs of requiring an entity to disclose this information. It therefore expects that the proposed disclosure requirements would provide users with more useful information about the performance of a business combination at a reasonable cost.

In particular, the IASB is proposing to require an entity to disclose information about the entity's acquisition-date key objectives and related targets for a business combination and whether these key objectives and related targets are being met (information about the performance of a business combination). The IASB has responded to preparers' concerns about disclosing that information by proposing:

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

(a) Do you agree with the IASB's proposal to require an entity to disclose information about the performance of a strategic business combination, subject to an exemption? Why or why

not? In responding, please consider whether the proposals appropriately balance the benefits of requiring an entity to disclose the information with the costs of doing so.

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

Our members acknowledge the need for relevant and meaningful disclosures to enable users of the financial statements to make their judgements on the performance of strategic business combinations and adjust their forecasts accordingly.

However, our members have significant concerns in relation to the nature and extent of the disclosures which include a significant amount of forward-looking information which is prepared using significant level of management judgement which may be commercially sensitive and prone to material levels of litigation in certain jurisdictions. The extent of the disclosures may have the unintended consequence of encouraging preparers to scope out as many acquisitions as possible. Conversely, more manageable disclosures would encourage entities to scope in a greater number of acquisitions. In addition, by its very nature our members consider that this information is better presented in the management commentary rather than in the notes to the financial statements.

Our members welcome the efforts from the IASB to distinguish between strategic and other business combinations however, we note that the thresholds included in the Exposure may differ from the ones used by management to track the performance of strategic business combinations. Any difference will produce artificial outcomes solely for accounting purposes which should be considered carefully. Our members would appreciate clarification of the definition of a 'strategic business combination.' The word 'strategic' may be prone to judgment and subject to specific facts and circumstances. These are predicated on an entity's acquisitions and disposals strategy and should not be subject to an arbitrary threshold. Hence, strategic acquisitions should be more precisely defined and be subject to a rebuttable presumption.

We also envisage significant difficulties in tracking strategic business combinations as a ring-fenced set of data as this depends on the integration strategy. Splitting the acquired business from the combined (integrated business) is not always possible and it is often inconsistent with the management view. This will make disclosure meaningless and of limited value to the users of the financial statements. It will also require significant development processes which are costly and deliver limited benefits.

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

The IASB is proposing to require an entity to disclose information about the performance of a business combination (that is, information about the entity's acquisition-date key objectives and related targets for the business combination and whether these key objectives and related targets are being met) for only strategic business combinations—a subset of material business combinations. A strategic business combination would be one for which failure to meet any one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy.

The IASB is proposing that entities identify a strategic business combination using a set of thresholds in IFRS 3—a business combination that met any one of these thresholds would be considered a strategic business combination (threshold approach) (see paragraphs BC56–BC73).

The IASB based its proposed thresholds on other requirements in IFRS Accounting Standards and the thresholds regulators use to identify particularly important transactions for which an entity is required to take additional steps such as providing more information or holding a shareholder vote. The proposed thresholds are both quantitative (see paragraphs BC63–BC67) and qualitative (see paragraphs BC68–BC70).

(a) Do you agree with the proposal to use a threshold approach? Why or why not? If you disagree with the proposal, what approach would you suggest and why?

(b) If you agree with the proposal to use a threshold approach, do you agree with the proposed thresholds? Why or why not? If not, what thresholds would you suggest and why?

We do not agree with the proposal to use a threshold approach (see commentary above). We think a threshold approach is artificial and is inconsistent with the commercial reality of a business combination. We would recommend a principles-based approach for strategic transactions with appropriate supplementary disclosures rather than a bright line threshold. Items that could be considered as “non-exhaustive” indicators by the IASB include:

- *Consideration of a period longer than one accounting period;*
- *Consideration of management (normalised) metrics rather than point-in time accounting metrics as these can be influenced by material one-off items (e.g. material negative goodwill which would be a one-off P&L item with no impact on the on-going operations of the acquired entity);*
- *Consider alignment to the entity's acquisition and disposals strategy and the relevance of the criteria in light of that strategy (e.g. in relation to new geographical locations);*
- *Include a rebuttable presumption for the assessment thresholds. Based on the current proposal it is difficult to understand how the Qualitative thresholds and Quantitative thresholds would be applied together, for example if an acquisition did not meet the quantitative thresholds, then how would it be considered a “major” line of business or geographic area of operations.).*

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.

We welcome the proposed exemption which we consider to be a helpful and protective measure. Nevertheless, we would recommend that the proposed exemption for strategic business combinations should cover B67A(b)(i), i.e. quantitative disclosure on actual performance, given such disclosure will equally prejudice the achievement of any of the acquirer's acquisition-date key objectives.

We do not think the proposed scope exemption is wide enough. We would recommend that the final standard (or application guidance) specifically covers additional areas such as commercial sensitivity, litigation (both current and potential), confidentiality etc.

Question 4—Disclosures: Identifying information to be disclosed (proposed paragraphs B67A–B67B of IFRS 3)

The IASB is proposing to require an entity to disclose information about the performance of the entity's strategic business combinations (that is, information about its acquisition-date key objectives and related targets for a strategic business combination and whether these key objectives and related targets are being met) that is reviewed by its key management personnel (see paragraphs BC110–BC114).

The IASB's proposals would require an entity to disclose this information for as long as the entity's key management personnel review the performance of the business combination (see paragraphs BC115–BC120).

The IASB is also proposing (see paragraphs BC121–BC130) that if an entity's key management personnel:

- do not start reviewing, and do not plan to review, whether an acquisition-date key objective and the related targets for a business combination are met, the entity would be required to disclose that fact and the reasons for not doing so;
- stop reviewing whether an acquisition-date key objective and the related targets for a business combination are met before the end of the second annual reporting period after the year of acquisition, the entity would be required to disclose that fact and the reasons it stopped doing so; and
- have stopped reviewing whether an acquisition-date key objective and the related targets for a business combination are met but still receive information about the metric that was originally used to measure the achievement of that key objective and the related targets, the entity would be required to disclose information about the metric during the period up to the end of the second annual reporting period after the year of acquisition.

(a) Do you agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel? Why or why not? If not, how do you suggest an entity be required to identify the information to be disclosed about the performance of a strategic business combination?

(b) Do you agree that:

(i) an entity should be required to disclose information about the performance of a business combination for as long as the entity's key management personnel review that information? Why or why not?

(ii) an entity should be required to disclose the information specified by the proposals when the entity's key management personnel do not start or stop reviewing the achievement of a key objective and the related targets for a strategic business combination within a particular time period? Why or why not?

Our members foresee significant difficulties in tracking the actual performance of a business combination as a ring-fenced set of data. This is particularly exacerbated when the business combination is entered into with the goal of subsequent integration. In addition, the synergies may be realised / integrated in various parts of a wider Group over several accounting periods and be subject to different levels of materiality. This effectively means that the application guidance should acknowledge the concept of materiality and link the disclosure to the most useful note where performance is reported i.e., the operating segments disclosure. It should also acknowledge the fact that:

- i) quantitative disclosures will be subject to a strict financial reporting control framework (e.g., Sox) and should only be included in the notes to the financial statements if the requirements of these are met.*
- ii) Management may still continue to review the information because of its strategic intent rather than because of the quantitative element related to synergies. If this information continues to be reviewed but it is not material to the users of the financial statements, then it should not be disclosed.*
- iii) KPIs across various business combinations may vary depending on the objectives, type of assumptions applied, data availability and quality etc.*

We would like to note that key management personnel and CODM are defined differently in IFRS and that the decision-making power in relation to strategic business combinations lies with the CODM. We would appreciate a clear definition of key management personnel or aligning the criteria to the CODM definition.

While we acknowledge the proposed requirements in the ED in relation to disclosing information on the basis of whether the CODM starts or stops reviewing the information on strategic business combinations and their ultimate objective, these requirements are very cumbersome as it is an extremely fluid area, and the information will change continually depending on the integration of the business and management reporting needs.

We also note that the information provided to the CODM may not be in line with the frequency of financial reporting for most of our members (i.e., quarterly). Our members note that this type of disclosure (management commentary) is better suited to annual financial statements therefore we strongly recommend that the final standard clarifies that this is only required for annual reporting periods.

Question 5—Disclosures: Other proposals

The IASB is proposing other amendments to the disclosure requirements in IFRS 3. These proposals relate to:

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

The IASB proposes to add new disclosure objectives in proposed paragraph 62A of IFRS 3 (see paragraphs BC23–BC28).

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

The IASB proposes:

- to require an entity to describe expected synergies by category (for example, revenue synergies, cost synergies and each other type of synergy);
- to require an entity to disclose for each category of synergies:
 - the estimated amounts or range of amounts of the expected synergies;
 - the estimated costs or range of costs to achieve these synergies; and
 - the time from which the benefits expected from the synergies are expected to start and how long they will last; and
- to exempt an entity from disclosing that information in specific circumstances.

See paragraphs BC148–BC163.

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

The IASB proposes to replace the requirement in paragraph B64(d) of IFRS 3 to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for the business combination (see paragraphs BC164–BC165).

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

The IASB proposes to amend paragraph B64(q) of IFRS 3 to improve the information users receive about the contribution of the acquired business (see paragraphs BC166–BC177). In particular, the IASB proposes:

- to specify that the amount of profit or loss referred to in that paragraph is the amount of operating profit or loss (operating profit or loss will be defined as part of the IASB's Primary Financial Statements project);

- to explain the purpose of the requirement but add no specific application guidance; and
- to specify that the basis for preparing this information is an accounting policy.

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

The IASB proposes to improve the information entities disclose about the pension and financing liabilities assumed in a business combination by deleting the word 'major' from paragraph B64(i) of IFRS 3 and adding pension and financing liabilities to the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3 (see paragraphs BC178–BC181).

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

The IASB proposes to delete some disclosure requirements from IFRS 3 (see paragraphs BC182–BC183). Do you agree with the proposals? Why or why not?

We have concerns about the requirement to provide a detailed analysis of synergies by category. This information is commercially sensitive and may be detrimental to our members to disclose. For example, cost synergies often come from migrating the existing staff of an acquired entity into the acquirer which is highly sensitive information. It is unclear whether if such numbers are included in these disclosures where that would then trigger an IAS 37 provision for employee costs.

In the instances where the disclosure is not detrimental or commercially sensitive it should be provided in the management commentary and on an aggregated basis and only for strategic business combinations which are specifically tracked by management. If the disclosure is solely required on the basis of an arbitrary threshold for accounting purposes this will add significant costs most notably driven by the volume of disclosures proposed for each individual business combination which may not be useful for the users of the financial statements. This information would not necessarily be retained separately and tracking it for each transaction could be problematic.

We note that entities do not necessarily have a well-designed and consistent way to measure synergies and that this is often done on a case-by-case basis depending on the level and quality of the information available about the target at the date of acquisition, objectives, assumptions applied etc. We therefore question the usefulness of such information for the users of the financial statements.

We are also concerned about the additional proposed disclosures in IFRS 3.B64 that would require disclosure for individually immaterial business combinations that are material collectively under IFRS 3.B65. This would mean that a lot more information on individually immaterial business combinations needs to be tracked. We question the usefulness of such information.

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?

Our members see the shielding proposals in the Exposure Draft as relevant additions which contribute to the clarification of existing practice. These will be considered by our members in their impairment tests going forward.

We consider that the proposed requirement on which reportable segment includes CGU containing goodwill is useful as it would help users to better assess the reasonableness of assumptions used in the impairment test. This will allow users to have a more targeted view of the effect of goodwill attributable to each individual CGU.

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?

We support these proposals as this brings a further degree of alignment with the management view as follows:

-a) the calculation would be based on cash flow projections that are more aligned to those used internally by management.

b) Removing the requirement to use pre-tax cash flows and pre-tax discount rates would mean that it is more likely that the numbers used in VIU calculation would be consistent with what management used in their internal assessment. This will be more cost effective as the same set of estimates will be used for both internal and external reporting

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

The IASB proposes to amend the forthcoming IFRS X Subsidiaries without Public Accountability: Disclosures (Subsidiaries Standard) to require eligible subsidiaries applying the Subsidiaries Standard to disclose:

- information about the strategic rationale for a business combination (proposed paragraph 36(ca) of the Subsidiaries Standard);
- quantitative information about expected synergies, subject to an exemption in specific circumstances (proposed paragraphs 36(da) and 36A of the Subsidiaries Standard);

- information about the contribution of the acquired business (proposed paragraph 36(j) of the Subsidiaries Standard); and
- information about whether the discount rate used in calculating value in use is pretax or post-tax (paragraph 193 of the Subsidiaries Standard).

See paragraphs BC252–BC256.

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

We do not believe the proposals will have a material impact on our members and therefore will not comment further.

Question 9—Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 1400 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

We agree with the proposal that the amendments should only apply prospectively. Retrospective application would entail a very complex and costly implementation project involving multiple comparative periods which would have been very difficult for our members to implement.

We also recommend that the amendments should only be required for annual reporting periods given the complexity of obtaining the information for interim reporting periods. This stems from the evolving nature of business combinations which is not consistent with the rigid view of an historical reporting periods.