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Submitted electronically via www.ifrs.org

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear IASB members,

Re: Business Combinations – Disclosures, Goodwill and Impairment (ED/2024/1)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Business Combinations – Disclosures, Goodwill and Impairment" issued in March 2024.

Our process

This response letter represents the views of AcSB members and staff based on their knowledge and experience.

As part of our due process for this Exposure Draft, we consulted with 87 interested and affected parties across Canada. This included discussions with our User Advisory Committee and IFRS® Accounting Standards Discussion Group, financial statement preparers from Canadian financial institutions, and broader public outreach. Through these discussions, we heard from financial statement users (users), preparers, practitioners, valuation specialists and regulators. We took their feedback into account when developing this letter.

Our view

Overall, we are supportive of the objectives of the project, which are to provide users with more useful information about business combinations at a reasonable cost and to improve the effectiveness of the impairment test. The users we consulted shared a need for improved information about business combinations to assess the acquisition's merit, the performance of acquired businesses and to hold management accountable for their investment decisions. Most users expressed an indifference regarding whether this information resides inside or outside the financial statements. Additionally, they continued to express concern regarding the untimely recognition of goodwill impairments often referring to them as being recognized "too little, too late".

Despite our support for the project's objectives, we disagree with the IASB's approach in addressing user's information needs through the IFRS 3 *Business Combinations* disclosure proposals in the Exposure Draft. Our response below includes several recommendations that we think will ensure that the information included in an

entity’s financial statements aligns with the intent of the Conceptual Framework for Financial Reporting, which seeks to provide information essential for users to make informed decisions.

Our alternative recommendation

We agree that information about a business combination’s performance against its key objectives and targets in the post-combination periods will be useful to users. However, we think this information can be provided by enhancing the disclosure requirements in IAS 36 *Impairment of Assets*.

We think incremental disclosures within IAS 36, could more effectively address the delayed recognition of goodwill impairments while also enabling users to independently assess the subsequent performance of the business combination. We think that a pragmatic approach could be achieved by requiring an entity to disclose the underlying assumptions used in annual impairment assessments of cash-generating units (CGUs) which contain goodwill or indefinite-lived intangible assets regardless of whether an impairment has occurred. We also think that additional disclosure requiring entities to provide a comparison of the actual results to key assumptions will allow users to evaluate the post-acquisition performance. During our outreach, users emphasized the critical role of these assumptions and their post-acquisition performance in providing decision-useful information to evaluate management's impairment assessments and to more effectively consider the business combination’s integration or assimilation into exiting CGUs. We think this could be implemented by amending paragraphs 134 and 135 of IAS 36.[1]

Proposed amendments to IFRS 3

Overall, we are concerned that some of the proposed disclosure requirements in the Exposure Draft may include aspirational and non-financial metrics. Moreover, if the IASB advances these proposals, preparers might resort to boilerplate disclosures or reduce the amount of information shared with users at the time of the acquisition. This could result in less meaningful information being available to users.

Targets and metrics are typically forward-looking and extend beyond what is included in the financial statements, particularly if they were not factored into the measurement of amounts recognized in the financial statements. We think that associating these targets and metrics with the assets and liabilities acquired in the business combination potentially extends beyond the parameters outlined in paragraph 3.6 of the Conceptual Framework for Financial Reporting. Targets, especially if they are aspirational have not been directly considered in the amounts recognized in the financial statements and may need to be clarified within management commentary to highlight the risks involved and other factors that could affect their achievement.

Goodwill acquired in a business combination represents a residual asset without direct linkage to specific valuation assumptions. This distinguishes it from other assets or liabilities whose values and recoverability are supported by forward-looking assumptions. For example, assumptions used to calculate expected credit losses for financial assets are directly linked to their carrying value, with a clear connection established between these assumptions and the asset measurement. We think the targets and metrics discussed in these proposals are not analogous to the valuation assumptions commonly used to support asset or liability values. Consequently, their connection to historical financial information included in financial statements remains unclear. Such targets and metrics are often subjective and contribute to the overall value of an entity, which contradicts paragraph 1.7 of the Conceptual Framework for Financial Reporting, specifying that financial statements are not intended to reflect the entity's overall value.

Proposed amendments to IAS 36

We support the IASB's objective to provide clarity on the allocation of goodwill to CGUs. However, we think the proposals will fall short in reducing shielding and directing entities to perform goodwill impairment testing at the appropriate level. We think the proposed amendment is too subtle to result in meaningful change to current

[1] Refer to the Appendix to this letter for further details on how this may be facilitated through the amendment of paragraph 134 and 135 of IAS 36.

practice where many entities default to allocating goodwill to an operating segment because it is not monitored for internal management purposes. As such, we think that more extreme measures may be needed to achieve the desired change in behaviour. For example, we think that introducing a rebuttable presumption that clarifies that goodwill should be allocated and tested for impairment a level below an operating segment may be more successful in reducing shielding.

The Appendix to this letter responds to the questions posed in the Exposure Draft and expands on the points raised above. The Appendix also includes other considerations that we encourage the IASB to consider should it proceed with finalizing the original proposals in the Exposure Draft.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Katharine Christopoulos, Director, Accounting Standards (+1 416 204-3270 or email kchristopoulos@acsbcanada.ca), or Jayshal Daya, Principal, Accounting Standards (+1 416 204-3501 or email jrdaya@acsbcanada.ca) or Andrew White, Associate Director, Accounting Standards (+1 416 204-3487 or email awhite@acsbcanada.ca).

Yours truly,

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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Accounting Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Accounting Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Accounting Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Accounting Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Accounting Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition,

we perform our own due process activities for each new or amended IFRS Accounting Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB’s proposals to understand and consider their views before deciding whether to endorse a final IFRS Accounting Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

Appendix

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?

1. Overall, we are supportive of the IASB's objective to improve the information users receive about the acquisition-date performance of business combinations. However, we are concerned that the disclosure requirements proposed in paragraphs B67A-B67G of IFRS 3 utilize information that is beyond the scope of an entity's general purpose financial statements and that this information would more appropriately reside in other documents such as Management Commentary. We also think if the IASB proceeds with these proposals, the information provided by preparers would become boilerplate and/or they may provide less information to the market. Our rationale and recommendation for an alternative approach are outlined below.

Defining the Boundaries: Scope of Financial Statements

2. We think that the disclosure of targets and metrics used by the key management personnel should be disclosed outside the financial statements. The nature of this information, typically seen as forward-looking, goes beyond the scope of what is included in the financial statements, particularly if these targets and metrics were not factored into the measurement of amounts recognized in the financial statements. We think that associating these targets and metrics with the assets and liabilities acquired in the business combination extends beyond the parameters outlined in paragraph 3.6 of the Conceptual Framework for

Financial Reporting. For instance, such disclosures may involve forward-looking aspirational targets related to management's expectations and strategies for the entity. These targets, especially if they are aspirational, may not have been directly considered in the amounts recognized in the financial statements, and may need to be clarified within management commentary to highlight the risks involved and other factors that could affect their achievement. This commentary could offer clearer insights into the disclosed targets, which we think is better provided outside the financial statements for improved relevance.

3. Furthermore, we think that the connection of these objectives and targets to the assets acquired or liabilities assumed in the business combination is unclear. For example, goodwill acquired in a business combination is not measured using the principles in paragraph 18 of IFRS 3 and represents a residual asset without direct linkage to specific valuation assumptions. Furthermore, the value of goodwill can fluctuate significantly for reasons that do not have a direct correlation to its value. For example, recognized goodwill can vary significantly dependent on whether purchase consideration is paid in a fixed number of shares and the value of the shares fluctuates between the announcement date of the transaction and the acquisition date. It can also fluctuate significantly dependent on whether the entity recognizes deferred tax assets and liabilities. We see this as being different to other assets or liabilities whose values and recoverability are supported by forward-looking assumptions. For example, the assumptions used to determine the expected credit losses of a financial asset are directly linked to the carrying value of those assets, and the link between those assumptions (that are disclosed in an entity's financial statements) and the measurement of those assets is clearly established. The targets and metrics discussed in these proposals are not analogous to the valuation assumptions commonly used to support asset or liability values. Consequently, their linkage to historical financial information included in financial statements remains ambiguous. Such targets and metrics are often subjective and contribute to the overall value of an entity, which contradicts paragraph 1.7 of the Conceptual Framework for Financial Reporting, specifying that financial statements are not intended to reflect the entity's overall value.

4. The preparers, auditors and regulators that we consulted had several concerns associated with incorporating this information into the financial statements. Preparers may be subject to regulatory requirements applicable to forward-looking information disclosed in the financial statements. Local securities regulations may require an entity to provide updates or additional information regarding these targets and metrics, thereby increasing the reporting burden on entities. Additionally, the disclosure proposals will likely require the entity to design controls and processes for the generation and verifiability of these metrics, which may introduce additional operational complexities and resource demands.

5. Similarly, auditors expressed concerns about verifying the reasonability of these forward-looking disclosures, particularly when management's assumptions are aspirational, use non-financial metrics or are subject to high levels of estimation uncertainty. For example, non-financial information such as market share will be challenging to audit, as the inputs to the calculation such as determining the total addressable market, may fall outside the entity's existing information systems. To address these challenges, we think that entities may provide boiler plate disclosures, reduce the metrics reviewed by key management personnel or disclose target metrics with overly broad ranges, thus diminishing the information's relevance. This could also result in auditors primarily providing assurance that disclosed targets align with management's perspective, rather than verifying the reasonableness of the metrics themselves, potentially limiting the information's usefulness. Similarly, disclosing subsequent actual performance against non-financial objectives and targets can pose significant challenges for auditing. This approach may inadvertently suggest to users that the accuracy of such disclosures has been audited, which goes beyond the intended scope of an audit. Thus, leading to a considerable expectations gap, as users might expect the audit to have confirmed the accuracy of the disclosed actual performance. We think that even if the proposals include an explicit statement that audits do not verify the accuracy of these metrics or actual performance against objectives, that an expectations gap will remain.

6. Disclosing such information outside the financial statements may be preferable, as most users we consulted were indifferent regarding whether this information resides inside or outside the financial statements.

Overall, we think that users are more concerned with the relevance of the information provided as opposed to its location.

7. In the May 2021 Exposure Draft *Management Commentary* the IASB noted that the objective for Management Commentary is to highlight material information for users, focusing on key matters critical to the entity's ability to create value and generate cash flows, particularly in the long term. As such, we think that these disclosures may better align with the principles in paragraph IN3 of the IASB's Practice Statement 1 *Management Commentary* which emphasizes:

   > Management commentary is a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity. It also provides management with an opportunity to explain its objectives and its strategies for achieving those objectives. Users routinely use the type of information provided in management commentary to help them evaluate an entity's prospects and its general risks, as well as the success of management's strategies for achieving its stated objectives. For many entities, management commentary is already an important element of their communication with the capital markets, supplementing as well as complementing the financial statements.

Recommendation for an alternative

8. We think that some of this information can be provided by enhancing the disclosure requirements in IAS 36 without having to introduce undue complexity and costs. Incremental disclosures within IAS 36, could more effectively address the delayed recognition of goodwill impairments while also enabling users to independently assess the subsequent performance of the business combination.

9. We think that part of user information needs could be achieved by requiring an entity to disclose the underlying assumptions used in annual impairment testing regardless of whether an impairment has occurred. Through our consultations, users highlighted the pivotal role of these assumptions in providing decision-useful information to assess management's impairment evaluations and to better gauge the integration or assimilation of business combinations into existing CGUs. We suggest achieving this by amending paragraphs 134 and 135 of IAS 36 to ensure consistent application. Moreover, given that such disclosures are already provided when an impairment is recognized, they may be better received by preparers and practitioners. We also think that providing this information at a more disaggregated level, as proposed in paragraphs 80-83 of IAS 36, may provide users with useful information about an acquired business post-combination.

10. Paragraphs 134 and 135 of IAS 36 currently require entities to disclose specific impairment assumptions and estimates used in determining the recoverable amounts of CGUs containing significant goodwill or indefinite lived intangible assets. However, it is our understanding that consistent application of the disclosure requirements outlined in paragraphs 134(d)-(f) and 135(c)-(e) of IAS 36 is lacking due to the interpretation of "*most sensitive*" as defined in paragraphs 134(d)(i), 134(e)(i) and 126(f)(iii) of IAS 36. Key assumptions are currently defined as *those to which the unit's (group of units') recoverable amount is most sensitive,* which is a subjective criterion. Consequently, many entities consider their assumptions to be "non-key" because, in the absence of impairment, the asset balance in the financial statements is not adjusted to its recoverable amount, thereby reducing the perceived sensitivity of these assumptions on the financial statements and exempting them from required disclosures. To address this issue, we suggest updating the definition of *key assumptions* in these paragraphs to *"as those that significantly influence the determination of the unit's (or group of units') recoverable amount"*.

11. To better meet users' information needs about a business combination's subsequent performance, we recommend extending the disclosed assumptions mentioned earlier. This additional disclosure would require entities to provide a comparison of the actual results of key assumptions used to determine the recoverable amount of CGUs to the estimate included in the impairment assessment. For example, if an entity assumed a revenue growth rate of 10% in 20X4 for the purposes of its 20X3 annual impairment test,

and the actual growth rate for 20X3 was 6%, we think that the entity should disclose both the actual revenue growth rate experienced in 20X3 in addition to their expectation for 20X4. We think that this information will help users to assess the reasonableness of management's assumptions.

12. In addition, we think that enhancing the disclosures related to the acquisition date assumptions used to value intangible assets acquired in a business combination could be achieved by amending the disclosure requirements in IFRS 3 to incorporate aspects of the fair value disclosure requirements in paragraph 93(d) of IFRS 13 *Fair Value Measurements*. Particularly, we think that including a "description of the valuation technique(s) and inputs used in the fair value measurement" of intangible assets, could address some of the concerns raised by users. Specifically, users indicated that they would welcome receiving more information about the assumptions used to value intangible assets in business combinations as this information may provide some insight into the expected future performance of the entity.

The paragraphs below outline our perspectives should the IASB decide to proceed with finalizing its original proposals in the Exposure Draft, notwithstanding our recommendations.

Key objectives, targets in year of acquisition

13. While these proposals aim to address user information needs, we think that only a subset of these disclosures should be accommodated in the financial statements, with the remainder being considered within the context of other documents such as Management Commentary.

Targets and metrics included in the financial statements

14. The disclosure of targets and metrics that encompass financial information already included in the financial statements and that are specifically taken into consideration in the purchase price of an acquired business might be more practicably provided in the financial statements. The users we consulted indicated that the financial metrics that are generally of importance to them include revenues, operating income, and other profitability metrics.

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?

15. We disagree with the proposals to disclose information about the performance of a business combination, because we think that this information is better provided using our recommendations in Question 1. Specifically, our concern lies with the disclosure requirements potentially involving information beyond the scope of an entity's general purpose financial statements. However, if the IASB decides to proceed with finalizing its original proposals in the Exposure Draft, we encourage them to consider our comments below.

16. The disclosures regarding the performance of strategic acquisitions should be based on the information used by management for reviewing and monitoring business combinations. The term "*key management personnel*" is well-defined in IAS 24 *Related Party Disclosures*, familiar to entities and ensures clarity in reporting. This approach also acknowledges the distinction between management review levels and the reportable segments under IFRS 8 *Operating Segments*. The feedback we heard from users did not indicate any concerns regarding the use of metrics reviewed by key management personnel, as it provides relevant information for assessing management's stewardship.

17. Entities should disclose the information proposed in paragraph B67B of IFRS 3 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. Furthermore, we think that disclosing the reasons for not reviewing this information is beneficial as it will provide users with insight into an entity's monitoring and stewardship practices. The proposed disclosure period of two full years following the acquisition aligns reasonably with typical integration timelines for acquired businesses.

18. We have reservations about the proposed threshold approach capturing the appropriate subset of business combinations. We heard diverse opinions from both users and other interested and affected parties on what constitutes a strategic business combination for the applicable disclosures. Therefore, we think the proposed threshold approach does not capture the appropriate subset of business combinations. Our rationale and recommendations for a more practical alternative are presented below.

Quantitative threshold

19. We think that imposing a 10% quantitative threshold is overly rigid and arbitrary. Users have expressed to us that there is no ideal quantitative percentage target, and the proposed threshold percentage may be too inflexible to accurately capture the appropriate composition of business combinations. For instance,

consider an entity that engages in a series of acquisitions spread over a 5-year period. Individually, each acquisition may not meet the quantitative thresholds. However, when viewed collectively, these acquisitions substantially transform the entire business of the entity and hold strategic significance for its operations.

20. Conversely, the 10% quantitative threshold could result in disclosures for transactions that are not considered strategic by users or management, as these transactions do not pose a significant risk to the entity's overall business strategy. This could lead to unnecessary or misleading disclosures. Many small-sized entities undergoing business acquisitions might meet the proposed 10% quantitative threshold simply due to the nature of their business or their stage in the business lifecycle. For instance, a pre-operating entity with zero revenue could trigger disclosure requirements by acquiring another entity with nominal revenue under the proposed 10% quantitative threshold. Consequently, these thresholds could encompass a broader range of transactions than intended, potentially capturing acquisitions considered non-strategic. Additionally, the volume of potentially immaterial disclosures may obscure material disclosures in the financial statements. The preparers we consulted informed us that many acquisitions meeting the 10% thresholds are not significant enough to warrant separate monitoring and are likely to be quickly integrated into the entity's existing operations.

21. We recommend the removal of the proposed operating profit or loss quantitative threshold due to its inherent volatility and limited effectiveness in identifying strategic operations. Operating profit or loss can fluctuate significantly due to various factors such as one-time events, changes in accounting policies, or economic conditions, which may distort its effectiveness of identifying a strategic business combination. Instead, focusing on revenue thresholds may provide a more stable and reliable measure for identifying strategic business combinations that impact an entity's business operations. This approach could better serve the objective of providing relevant information to users without the noise and volatility associated with operating profit or loss thresholds.

22. We also have concerns regarding the application complexity and potential issues associated with performing the quantitative threshold assessments. Specifically, uncertainties arise concerning whether IFRS Accounting Standards-compliant financial statements of the acquiree must be utilized, the necessity of auditing inputs used in threshold calculations, how to handle varying fiscal periods between the acquirer and acquiree, and the lack of clarity on which period metrics should be calculated (such as the trailing twelve months prior to acquisition). These uncertainties highlight the need for clear and detailed application guidance to ensure accurate and consistent application of the proposed thresholds.

Principles-based approach

23. We think that a principles-based approach, incorporating qualitative factors, would better ensure that only the appropriate business combinations are captured.

24. The qualitative factors should encompass an assessment by management of the inherent risks associated with the acquisition, including financial, operational, and strategic risks relative to the entity's strategic objectives. Additionally, consideration should also be given to whether the entity provided information about the acquisition outside of its financial statements, such as investor presentation decks. We think that by incorporating a mix of these criteria into a principles-based approach, entities can provide a more nuanced and comprehensive assessment of the strategic nature of acquisitions, thereby enhancing transparency and clarity of information provided to users.

25. If the IASB decides to proceed with a closed-list approach, we think introducing a rebuttable presumption could provide the necessary flexibility and prevent disclosure overload. Furthermore, if management rebuts this presumption, this fact and the reason(s) should be disclosed in the financial statements.

Definition

26. To address the conceptual inconsistency between the quantitative thresholds and the term '*strategic*' business combinations, we recommend incorporating the definition of "strategic" from paragraph BC54 in

Basis for Conclusions into the standard itself. We think that this change will enhance clarity; however, in isolation it may not fully facilitate the application of this requirement. Through our outreach efforts, we heard that the term '*strategic*' could pose challenges without sufficient elaboration or application guidance to assist preparers in understanding its application and identifying an appropriate subset of business combinations. This concern is especially relevant if a principles-based approach to identifying strategic business combinations is considered.

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.

27. As noted earlier, we disagree with the proposals to disclose information about the performance of a business combination, because we think that this information is better provided using our recommendations in Question 1. Specifically, our concern lies with the disclosure requirements potentially involving information beyond the scope of an entity's general purpose financial statements. Our recommendation in Question 1 avoids the need for an exemption. However, if the IASB decides to proceed with finalizing its original proposals in the Exposure Draft, we encourage them to consider our comments below.

28. Overall, we heard mixed views on the applicability of the exemption. However, we agree that the proposed exemption can be applied in the appropriate circumstances. We think it is crucial to incorporate an exemption that addresses concerns regarding commercial sensitivity. Some of the preparers we consulted agreed that aligning with the approach outlined in paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* would simplify application due to their familiarity with those requirements. Additionally, feedback from our outreach indicated that disclosing synergies at a sufficiently high level could mitigate the need for applying the exemption by allowing for the confidentiality of sensitive details such as workforce reductions. During our outreach, users expressed that providing disclosures at an aggregated level, similar to segment reporting, would still provide useful information for their analysis.

29. We also heard concerns during our outreach that the high threshold for applying the exemption may render it impractical. Specifically, preparers and practitioners shared concerns regarding the subjective nature of "seriously prejudice" and uncertainties about consistent application across different entities. We think that applying the exemption will necessitate careful consideration of specific facts and circumstances on a case-by-case basis. Therefore, we agree that providing clear application guidance could alleviate many of these concerns and clarify when the exemption is appropriate. Furthermore, we recommend the inclusion of illustrative examples that clearly articulate how entities should disclose when they have applied the exemption and specify the circumstances under which previously exempted information should be disclosed. These examples would provide guidance and enhance clarity for entities applying the exemption in practice.

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?

30. As noted earlier, we disagree with the proposals to disclose information about the performance of a business combination, because we think that this information is better provided using our recommendations in Question 1. Specifically, our concern lies with the disclosure requirements potentially involving information beyond the scope of an entity's general purpose financial statements. However, if the IASB decides to proceed with finalizing its original proposals in the Exposure Draft, we encourage them to consider our comments below.

31. The disclosures regarding the performance of strategic acquisitions should be based on the information used by management for reviewing and monitoring business combinations. The term "key management personnel" is well-defined in IAS 24 *Related Party Disclosures*, familiar to entities and ensures clarity in reporting. This approach also acknowledges the distinction between management review levels and the reportable segment level under IFRS 8 *Operating Segments*. The feedback we heard from users did not indicate any concerns regarding the use of metrics reviewed by management, as it provides relevant information for assessing management's stewardship.

32. We support the proposed disclosure duration as it aligns with management's consideration of the relevant monitoring period. If our recommendations in Question 1 were applied, there would be no need to specify a duration for disclosure.

33. Entities should 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. Furthermore, we think that disclosing the reasons for not reviewing this information is beneficial for users seeking insights into an entity's monitoring practices. The proposed disclosure period of two full years following the acquisition aligns reasonably with typical integration timelines for acquired businesses.

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?

Expected synergies

34. We support the IASB's intention to improve the information entities provide about the expected synergies for all material acquisitions, based on users' emphasis on the need for this information. During our consultations, users told us it would be beneficial to disclose synergies integral to the valuation. Requiring

these disclosures could prompt management to scrutinize synergies more thoroughly and with greater precision and completeness. Unless this information is presented in an unbiased and error-free manner, it may undermine its usefulness.

35. However, we are concerned that the proposed disclosures require information that is beyond the scope of an entity’s general purpose financial statements and that this information would more appropriately reside in other documents such as Management Commentary. Our rationale and recommendations for an alternative approach are consistent with our response outlined in Question 1.

36. Furthermore, we believe that the lack of a requirement to disclose the achievement of or performance against synergies in subsequent periods, unless included in the proposal outlined in Question 1, greatly diminishes the usefulness of the information. For example, management may set ambitious expected synergies that are not achieved in subsequent periods. The omission of actual results and subsequent management adjustments to expected synergies prevents users from assessing management's stewardship and holding them accountable.

Strategic rationale

37. We agree that by disclosing the strategic rationale for the business combination, an acquirer will provide decision-useful information to users. We think this information can be provided qualitatively, in a manner that avoids the disclosure of commercially sensitive and forward-looking information.

Other disclosures

38. We agree with the proposals to improve the information users receive about the contribution of the acquired business, to improve the information entities disclose about the pension and financing liabilities assumed in a business combination and to delete some disclosure requirements from IFRS 3 for the reasons provided in the Basis for Conclusions.

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

39. We agree that paragraph 80 of IAS 36 may result in goodwill being shielded from impairment. The preparers and practitioners we consulted shared that management often does not monitor goodwill and therefore, goodwill is allocated and tested for impairment at an operating segment level. We think that this practice has developed because the standard does not clearly articulate the IASB's intent in paragraph 80 of IAS 36. Specifically, we think that the authoritative text in IAS 36 does not draw a clear correlation between "the level at which goodwill is tested for impairment and the level of internal reporting that reflects the way the entity manages it operations (ParagraphBC140 of IAS 36)".

40. As such, we disagree with the IASB's characterization of the amendment to paragraph 80(a) of IAS 36 as a clarification as we think that the proposals change the requirements in that paragraph. Specifically, we think that adding the words "business associated with the goodwill" is different than the "the level within the entity as which goodwill is monitored". We also think that characterizing this change as a "clarification" may diminish the effectiveness of the proposal to reduce the shielding to goodwill impairments. Many of the preparers and practitioners we consulted thought that the change was very subtle and would not result in a change to the level at which goodwill is currently being tested for impairment. As such, we think that more extreme measures may be needed to achieve the desired change in behaviour. For example, we think that introducing a rebuttable presumption that clarifies that goodwill should be allocated and tested for impairment a level below an operating segment may be more successful in reducing shielding.

41. In the absence of more significant amendments to the standard, we encourage the IASB to make other changes to the proposals, although we think them unlikely to resolve the shielding issue. For example, the IASB should update wording throughout its Basis for Conclusions to signal that this amendment may result changes to the level at which goodwill is allocated. We think that this may be accomplished by updating

paragraph BC14(a) as follows: "~~clarifying~~ changing how an entity allocates goodwill to CGUs (paragraphs BC194-BC201)".

42. Determining "the lowest level within the entity at which the business associated with the goodwill is monitored for internal management purposes" is subject to significant judgment and may change over time dependent on the extent and speed of integration of a combination. Therefore, we encourage the IASB to provide an example to illustrate how management may apply paragraphs 80-80B of IAS 36 following a combination. For example, we think that it would be useful to illustrate that management may monitor the business associated with goodwill at a lower level immediately following an acquisition and that the level may change as the acquired business is integrated into existing operations.

Proposals to reduce management over-optimism

43. We agree with the IASB's proposal to amend paragraph 134(a) IAS 36 because we think it will provide useful information to users. The users we consulted shared that information about the subsequent performance of a business combination is useful even if provided at an integrated level. Therefore, we think that mapping of goodwill acquired to the reportable segment may provide some level of disaggregation and useful information.

44. Although we think this information may be useful to users, we do question whether it will achieve the IASB's objective of reducing management over-optimism associated with the assumptions they use in impairment tests. We think this may better be achieved by management providing greater visibility of assumptions used in their annual impairment test as outlined in our response to Question 1 above.

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?

45. We agree with the proposal to remove the restriction that prohibits entities from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance. We think that this proposal will simplify the calculation of value in use by aligning the assumptions used in the test with those utilized by entities when preparing forecasts for internal reporting purposes. However, we acknowledge that the amendments may lead to application questions. For example, we think that the proposals reduce the differences between a recoverable amount that is determined using value in use and one determined using fair value less costs of disposal. Therefore, we encourage the IASB to include an explanation in the Basis for Conclusions as to the remaining differences between the two measurement approaches. We also heard from preparers that it is not clear how the "current potential of an asset to be restructured, improved or enhanced" should be factored into a value in use calculation. Therefore, we encourage the IASB to retain illustrative examples 5 and 6 and update them to illustrate the intended application of these principles.

46. We also agree with the proposal to remove the requirement to use pre-tax inputs and pre-tax discount rates to calculate value in use. We think that converting a post-tax discount rate to a pre-tax discount rate is mechanical and does not provide users with useful information. The calculation itself is time consuming and requires an iterative calculation to unwind the timing of deferred taxes. It is our understanding that users evaluate returns on investments on a post-tax basis, therefore calculating and disclosing a pre-tax discount rate does not provide users with useful information. Notwithstanding this simplification, the IASB should also consider introducing guidance or illustrative examples to ensure consistent treatment of tax cash flows and existing temporary differences, loss carry forwards and the associated deferred tax amounts.

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?

47. We are supportive of the IASB's proposals to amend IFRS 19 *Subsidiaries without Public Accountability: Disclosures* to include the disclosures the Board considers appropriate for eligible subsidiaries. Overall, we think that proposed disclosure in paragraph 193(d)(iii) of IFRS 19 will help to clarify whether an entity has determined the value in use of a CGU using a pre-tax or post-tax discount rate. We also agree that the proposed disclosure requirements in paragraph 36(j) of IFRS 19 will provide useful information to users. However, we do not agree with the IASB's proposals in paragraphs 36(ca) and 36(da) of IFRS 19 for the reasons highlighted in questions 1 and 2 above.

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.

48. We agree that the proposed amendments to IFRS 3 should be applied prospectively. In addition, we think that dependent on the IASB's response to Questions 1-7 above, that sufficient time will need to be provided for preparers to develop processes and internal controls and to consider the potential need for new systems to collect, aggregate and track required information.

49. Paragraph 140O of IAS 36 proposes that the amendments would be applied prospectively to impairment tests performed on or after the effective date. We think that some entities may have a change in the level at which goodwill is tested for impairment as the result of the amendments proposed in paragraphs 80-83 of IAS 36. As proposed, an entity would be required to apply the amendments on or after the effective date as part of the annual impairment test or because of an indicator of impairment. We have identified several challenges with this approach. First, we think that it is unclear how the proposals will be applied in those jurisdictions that have quarterly or semi-annual filing requirements. For example, if an entity recognizes an impairment in the year of adoption, and that impairment is the result of a) reallocating goodwill to CGUs; and b) the timing of their annual impairment test (i.e. not a trigger-based impairment), how should this impairment be reflected in the entity's quarterly financial statements?

50. We also think that it is unclear how the proposals will be applied prospectively in connection paragraphs 44-51 of IAS 36. For example, an entity recognized of an impairment of an asset or group of assets (other than goodwill) in a previous period based on the current requirements in paragraphs 44-51 of IAS 36. As a result of the amendments, the recoverable amount of the CGU would change due to including cash flows associated with restructuring, improvements or enhancements. When applying the amendments prospectively, and assuming there is no indicator of a reversal of impairment (other than the change in the cash flows permitted to be included in the value in use calculation), we think the entity should book the reversal on the date of adoption.

51. Therefore, after considering the issues highlighted in paragraphs 53 and 54 above, we think that there should be separate transition guidance for the proposals in IAS 36. Specifically, we think that:

    a. any impairments recognized as the result of changes to allocating goodwill to CGUs; and

    b. reversals of impairments as the result of changes to the computation of the value in use of a CGU,

    should be recognized in opening retained earnings at the date of adoption for these amendments. Overall, we think that recognizing these changes in opening retained earnings will clarify that the change is the result of the amendments and not as the result of some other triggering event.