Consultation on IASB Exposure Draft on Business Combinations-Disclosures, Goodwill and Impairment (Proposed amendments to IFRS 3 and IAS 36)

No.	Questions / Relevant Excerpt	Concerns / Recommendations / Your Comments (*please provide detailed rationale and suggested alternatives where appropriate*)
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	We consider disclosing information on actual performance of specific transactions against targets runs into the territory of management commentary/financial review/MD&A, which is normally presented outside the audited financial statements. IAS 1.13 recognises the existence of this type of reports and statements that are presented outside the financial statements. Disclosure of the objectives of business combinations is important and should have already been covered in the existing IFRS 3.B64(d) which requires disclosure of the primary reasons for the business combination. However, it might be difficult and costly for an entity to disclose the targets for a business combination and whether these targets are being met. We disagree with the proposed IFRS 3.BC139 which claims that the proposed disclosure is not forward-looking information. We appreciate that users of financial information would find those information useful but question whether it is appropriate for those information to form part of the audited financial statements.

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	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?	
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	We consider that whether a business combination constitutes a 'strategic' transaction is always determined by management based on the entity's own strategies and this would inevitably be different for different entities. Defining a business combination as 'strategic' based on IFRS metrics would be misleading. If the IASB decides to use a threshold approach, we would suggest using a description that better reflects the scope of the disclosure, for example, 'substantial', 'major' or just describe the criteria and state them as transactions subject to additional disclosure under IFRS 3. We appreciate a threshold approach may make it easier to determine which business combinations are subject to additional disclosure. However, the concept of materiality is already embedded in the Conceptual Framework under the qualitative characteristics of useful financial information. We do not understand why there needs additional disclosure requirements on a subset of material business combinations.

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	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?	
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.	The nature of the proposed disclosures is commercially sensitive and the proposed disclosures can be subject to litigation risk. We would have concerns about how the proposed disclosure can be implemented without resulting in unintended market reaction.

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	(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.	
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	See comments on Q1 above.

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	• 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?	
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)*	We are concern 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 need to be tracked. We question the usefulness of such information. Unlike normal business transactions of similar nature that are individually immaterial but may be material collectively, all business combinations are different. We are not sure if aggregating information of individually immaterial business combinations would

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	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).	provide information that are relevant and useful to users. It certainly fails the cost and benefits test from the perspective of a financial statement preparer. The proposed IFRS 3.62A(a) – We have no strong views on the proposed paragraph 62A, as the current disclosure requirements in IFRS 3 would have meet the proposed disclosure objectives. The proposed IFRS 3.62A(b) – Please see our comments on Q1 and Q2 above. The proposed IFRS 3.B64(ea) – The proposed qualitative disclosure should have been covered by the existing IFRS 3.B64(d) if applicable. We consider that the proposed quantitative disclosure should form part of management commentary/ financial review/MD&A, which is normally presented outside the audited financial statements. IFRS does not prescribe how 'synergies' are classified and measured. We question whether information of this nature should form part of IFRS financial statements. The proposed IFRS 3.B64(q)(ii) – We disagree that the basis of preparation for information that results in the acquirer disclosing information that helps users of its financial statements forecast future performance of the combined entity is an IFRS accounting policy. That said, we do not disagree with the disclosure of a basis of preparation if those information are to be disclosed. However, as to whether a basis of preparation can be developed in such a way that results in the acquirer disclosing information that helps users of its financial statements forecast future performance of the combined entity, we consider it unduly onerous from the perspective of a financial statement preparer because users make forecast in different ways based on their expertise and the information and the methodology they use.

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	Contribution of the acquired business (paragraph B64(q) of IFRS 3) The IASB proposes to amend paragraph B64(q) of IFRS 3 to improve the information users receive about the contribution of the acquired business (see paragraphs BC166–BC177). In particular, the IASB proposes: • to specify that the amount of profit or loss referred to in that paragraph is the amount of operating profit or loss (operating profit or loss will be defined as part of the IASB's Primary Financial Statements project); • to explain the purpose of the requirement but add no specific application guidance; and • to specify that the basis for preparing this information is an accounting policy. *Classes of assets acquired and liabilities assumed (paragraph B64(i) of IFRS 3)* The IASB proposes to improve the information entities disclose about the pension and financing liabilities assumed in a business combination by deleting the word 'major' from paragraph B64(i) of IFRS 3 and adding pension and financing liabilities to the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3 (see paragraphs BC178–BC181). *Deleting disclosure requirements (paragraphs B64(h), B67(d)(iii) and B67(e) of IFRS 3)* The IASB proposes to delete some disclosure requirements from IFRS 3 (see paragraphs BC182–BC183). Do you agree with the proposals? Why or why not?	

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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	(a) Shielding can be a result of (i) inappropriate determination of the level at which goodwill impairment is tested; (ii) inappropriate determination the level of CGUs, or (iii) management deliberate intention. The proposed changes to IAS 36.80-83 would help scenario (i) since it gives flexibility to test for impairment at a lower level where appropriate, as this would reflect how management assesses the synergies of the combination. (b) The proposal to require an entity to disclose in which reportable segment a CGU (or group of CGUs) containing goodwill is included would provide useful information to users for assessing the reasonableness of assumptions used in the impairment test. However, we are skeptical if this can effectively reduce management over-optimism. Over-optimism is a view taken by management and cannot be addressed by additional financial disclosure.

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	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?	
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?	(a) Agree. This is because the calculation would then be based more closely on cash flow projections that are used internally by management. (b) Agree. The key point that the cash flow forecasts and discount rates used in impairment tests should be internally consistent and disclosure is made as to whether pre-tax or post-tax numbers are used. 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, as it would be more cost effective to use the same set of numbers for both internal and external reporting.

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	(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?	
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?	No comment.
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	Agree with prospective application without restating comparative information.

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	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.	