International Accounting Standards Board (IASB)
IFRS Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom
Submitted electronically

July 15, 2024

Re: IIF's Public Comment Letter on the IASB Exposure Draft on Business Combinations – Disclosures, Goodwill and Impairment – Proposed amendments to IFRS 3 and IAS 36

Dear Sir or Madam,

The Institute of International Finance (IIF)[1] and its members, which broadly represent the global financial services industry, are pleased to submit industry perspectives in response to the International Accounting Standards Board (IASB or the "Board") "Exposure Draft on Business Combinations – Disclosures, Goodwill and Impairment – Proposed amendments to IFRS 3 and IAS 36"[2]

The IIF appreciates the objective of the IASB to provide better information for users of financial statements to assess business combinations and to address the complexity of impairment tests (IAS 36). In particular, we appreciate the Board's proposals to improve the goodwill impairment testing process by permitting the inclusion of cash flows from future restructurings and the use of after-tax discount rates, which will reduce the cost and complexity of preparing the key assumptions for the value-in-use calculation.

We do have concerns regarding the additional disclosure requirements proposed in the Exposure Draft (ED) and have outlined these concerns and associated recommendations in more detail below.

We believe that the IFRS 3 disclosure requirements proposed in the ED would be better placed in the management report / commentary rather than being required in the notes of the financial statements as the disclosures are future oriented.

[1] The Institute of International Finance (IIF) is the global association of the financial industry, with about 400 members from more than 60 countries. The IIF provides its members with innovative research, unparalleled global advocacy, and access to leading industry events that leverage its influential network. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial, and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. IIF members include commercial and investment banks, asset managers, insurance companies, professional services firms, exchanges, sovereign wealth funds, hedge funds, central banks, and development banks.
[2] "https://www.ifrs.org/content/dam/ifrs/project/goodwill-and-impairment/exposure-draft-2024/iasb-ed-2024-1-bcdgi.pdf"

We strongly recommend the Board to reconsider its proposal to require disclosure on the key objectives and targets of strategic business combinations and on the expected synergies. We are concerned about the usefulness and quality of this information as auditability would be limited to confirming if the disclosures are aligned with the information management is reviewing internally. The disclosures would also involve a high level of discretion and judgement by preparers and may not achieve the objective of the amendments. In addition, disclosing these items may reveal confidential strategic information which is commercially sensitive (such as internal strategies) and may not be practical to estimate in the context of financial reporting.

Guidance for qualifying as a strategic acquisition

If the proposed disclosure requirements are retained, we recommend limiting the scope of the disclosure requirements to strategic business combinations. Given the costs and efforts associated with disclosing this information, preparers' efforts should be focused on providing this information for strategic business acquisitions (which would result in critical future impacts to the overall business).

We also recommend reconsidering what qualifies as a strategic business combination in IFRS 3, because it is defined in a way that could lead to burdensome disclosures for non-strategic acquisitions. The Basis of Conclusions (BC54) explains that a strategic business combination is to be interpreted as one where the failure to meet any of the entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy. We believe that the acquisitions that would fall under the quantitative and qualitative thresholds prescribed in the ED would not capture the intended strategic acquisitions and would capture beyond what is described in BC54. We request the Board consider using a principles-based approach to identify strategic acquisitions from a qualitative perspective which should be considered by preparers in conjunction with the quantitative threshold. The Board could provide a sample list of factors (not exhaustive) that would result in the classification as a strategic transaction. An example of a strategic transaction could be if a retail company has low store sales and makes a significant acquisition to acquire a leading retail e-commerce technology company. The qualitative and strategic aspect would need to be considered along with the quantitative threshold prescribed by IASB. Another qualitative factor that could indicate that an acquisition is strategic would be if the acquisition is mainly funded by borrowings which could result in the acquirer being viewed as riskier by investors (i.e., significantly change the overall profile of the acquirer).

Quantitative threshold guidance

We believe that the quantitative threshold should not be applied to a single year of operating profit or loss or revenue because a single year can be impacted by factors that may not represent the true size of the business in the acquiree or the acquiror when applying the threshold. We suggest incorporating an average over a longer period of time for operating profit and revenue when applying the quantitative threshold to be able to assess the acquiree's size on a more reasonable and normalized basis.

We also recommend that the quantitative threshold be increased (e.g., to 20% as in BC67 the IASB noted that thresholds in local regulations range from 5% to 30% and 20% is close to the

mid-point of these thresholds. It is also consistent with the definition of "significant" under IAS 28) to focus on truly strategic acquisitions, and we request more guidance and illustrative examples on the application of the qualitative criteria. PWC also, for example, noted recently that they "believe that the 10% threshold for identifying strategic acquisitions appears low," arguing that "Many major capital market regulators apply thresholds of 20%–25% for similar measures to determine additional disclosures for significant acquisitions. Whilst all quantitative thresholds are arbitrary, an alignment to major capital markets regulators would also reduce overall burden, since fewer acquisitions would be deemed strategic and there would be better alignment to capital market requirements."[3]

We also recommend that the quantitative thresholds be rebuttable, which aligns with our recommended principles-based approach above.

Disclosure of quantitative information

The ED proposes a requirement to disclose information for strategic transactions that are reviewed by Key Management Personnel as defined in IAS 24. We have the following considerations for the Board if the disclosure requirements proceed:

- Given that strategic acquisitions are ones that are highly integral to the overall business strategy, we believe that the Chief Operating Decision Maker (CODM) as defined in IFRS 8 would be the appropriate level of management to review the most material objectives and targets of such strategic acquisitions.
- Key management personnel will often review additional, immaterial objectives and targets for strategic acquisitions, the disclosure of which may obscure material information, and would require additional judgement by preparers to identify those targets that should be disclosed, whereas the information reviewed by the CODM would generally be the most material objectives and targets.

We also recommend replacing the expected synergies in Paragraph B64 of the ED with incremental revenues and operating profits arising from the business combination. We believe disclosing the incremental operating profits provide investors with holistic information. When agreeing on the price to acquire a business, acquirers would consider current and expected performance/profitability of the business itself and potential synergies. Improved performance/profitability could also arise from measures not related to synergies (e.g., improving operating procedures, replacing existing management). The incremental operating profits could capture both aspects. Additionally, users of financial statements can use the incremental profitability to perform a DCF analysis to estimate the value of the business combination. In contrast, performing a DCF solely on synergies would provide an incomplete analysis.

We believe that the drafting on the proposed disclosures on synergies (or operating profit as we suggest) in Para B64(ea) can be improved. As drafted, it is unclear whether the synergies should be disclosed based on the (1) the pricing of the deal (2) date where control is assumed

[3] PWC 2024. "IASB proposals to improve reporting on acquisitions: a step in the right direction, but concerns still remain" June 21, 2024

or (3) financial reporting date. As there could be a significant time lag between the above dates, some acquirers may have updated their estimates. Consequently, we believe that entities should be required to indicate when the synergies were estimated.

Additionally, it is common for a single deal to span across multiple markets (and multiple businesses as defined in IFRS 3). For example, Group A enters into an agreement to acquire 5 businesses (as defined in IFRS 3) in 5 jurisdictions with the seller and the purchase consideration is priced as a package (e.g., because of synergies across jurisdictions). The legal date of completion (typically date where control is transferred) differs across the 5 jurisdictions, which could span across a few financial years as the regulatory approvals/processes differ across the 5 jurisdictions. It will be helpful if the IASB can clarify how the currently proposed disclosure requirements would apply in these situations.

Exemption from disclosing information

We believe that the criteria for the exemption provided in the ED for the disclosures should be broadened to better protect information that is confidential and/or sensitive either commercially or from a regulatory perspective (e.g., competition).

Paragraph B67D of the ED exempts entities from disclosure requirements when doing so can be expected to "seriously prejudice the achievement of the acquisition-date key objectives for the business combination". We believe that an explicit exemption from the disclosure requirements should be provided if the acquirer is under a contractual obligation (e.g., to the seller of the newly acquired business) not to disclose such information.

Duration of disclosures

We are concerned that Paragraph B67A and B67B of the ED's requirement to disclose information on an ongoing basis (or until the information is no longer tracked) could be a disincentive to track information, and if these requirements are retained, we recommend setting a time limit (e.g., 2 years) for these disclosures.

We thank the IASB for its consideration of our comments and welcome any additional stakeholder engagement around this topic. If you have any questions, please do not hesitate to contact Martin Boer at mboer@iif.com or Tim Steinhoff at tsteinhoff@iif.com.

Sincerely,

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