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11 July 2024

Mr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

By e-mail only - commentletters@ifrs.org

Re: Comment – Exposure Draft Business Combinations – Disclosures, Goodwill and Impairment – Proposed amendments to IFRS 3 and IAS 36

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft Business Combinations – Disclosures, Goodwill and Impairment – Proposed amendments to IFRS 3 and IAS 36 ("ED").

Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are set out in the appendix to this letter.

We are supportive of the proposed amendment to IAS 36 *Impairment*. However, we have several concerns regarding the proposed amendments to IFRS 3 *Business Combinations* and ask the Board to re-consider the following points:

1) Forward looking information

We do not believe that forward looking aspects of a business combination, such as expected synergies and future targets, should form part of the historic financial statements. Whilst this information may be of interest to financial statements users, we believe that forward looking information relating to business combinations should be included in management commentary.

2) Strategic business combinations

We believe that determination of strategic business combinations should be principles based, incorporating paragraph BC54 into the main body of IFRS 3. Furthermore, we believe that quantitative thresholds should be used as indicators of a strategic business combination, rather than criteria.

3) Retention of impairment only model

We are of the view that the perceived need for many of the disclosures comes from an impairment model for goodwill instead of amortisation. In our view acquired goodwill, which typically comprises the value of the acquired workforce and expected synergies, often has a finite useful economic life with acquired goodwill either realised or reduced overtime. Whilst convergence to US GAAP is achieved for listed entities with the retention of the impairment only model, we strongly recommend reconsidering the introduction of goodwill amortisation for all entities, together with the FASB, in the near future. We believe that the reintroduction of goodwill amortisation for all entities, together with the FASB, would more effectively address concerns relating to the uncertain nature of goodwill and accuracy of impairment reviews over a long period.

We would be pleased to respond to any questions the Board or its staff may have about any of our response. If you have any questions or comments, please do not hesitate to contact Monique Cole (+1 6172411461) or me (+44 (0)207 601 1842).

Yours faithfully,

Marion Hannon
Global Leader, Quality & Risk
RSM International Limited

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?

We agree that financial statements should include information regarding the subsequent performance of an acquisition. However, we do not believe that all the proposed amendments to IFRS 3 *Business Combinations* will provide relevant or reliable information for financial statement users. In particular, the proposed requirements to include disclosure of forward-looking aspects of the business combination. Whilst this may be of interest to the users of the financial statements, we do not believe that this information should form part of the historical financial statements and should instead be included in management commentary. We discuss this further in our responses to the questions below.

Forward looking information may be useful to users of financial statements due to the uncertain nature of goodwill and accuracy of impairment assessments over an infinite period. In order to remove some of this uncertainty and make the financial statements more reliable and relevant, we recommend the IASB reconsiders the reintroduction of the amortisation of goodwill for all entities, together with the FASB, in the near future.

We believe that goodwill, which typically comprises the value of the acquired workforce and synergies, often has a finite useful economic life, with the expected benefits embodied in goodwill either realised or reduced over time. For example, synergy benefits will be realised as the combined businesses are restructured or an acquiree's skilled workforce may leave the business. Furthermore, overtime acquired goodwill will be replaced by internally generated goodwill as companies continually invest to maintain or enhance their market position and competitiveness. Internally generated goodwill is a dynamic concept which changes over time as the entity's value changes. As internally generated goodwill is not permitted to be recognised as an asset under IFRS Accounting Standards, the amortisation of acquired goodwill would prevent the implicit recognition of internally generated goodwill, to the extent that it replaces acquired goodwill over time.

However, if the IASB wishes to address concerns regarding information related to business combinations through additional disclosures, we believe this would be better achieved by enhancing the estimation uncertainty disclosure requirements in IAS 1 *Presentation of Financial Statements*, and the replacement standard IFRS 18 *Presentation and Disclosure in Financial Statements*.

We recommend the IASB to reconsider the amendments to IFRS 3 disclosures. We believe that a number of the proposed amendments, such as management's strategy, objectives for the acquisition and achievement of these objectives, should not be included in financial statements. Instead, we believe that these disclosures should be incorporated into the *Management Commentary Project*. This would enhance comparability between entities that grow through acquisition and entities which grow organically.

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

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

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

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

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

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

We disagree with a threshold approach to determine strategic business combinations, as this does not follow the principles-based approach to International Financial Reporting Standards. Furthermore, we believe that the proposed criteria to determine a strategic business combination would capture a significant volume of business combinations, which would not necessarily be considered 'strategic' in the context of BC54:

'*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.'*

In order to address these issues, we suggest the following:

- The determination of a ‘strategic business combination’ should be principals based**,** incorporating BC54 into the main body of the standard to determine whether a business combination is ‘strategic’; and
- The quantitative thresholds should be indicators of a ‘strategic business combination’ rather than criteria to identify a strategic business combination.

Question 3 — Disclosures: Exemption from disclosing information (proposed paragraphs B67D–B67G of IFRS 3)

The IASB is proposing to exempt an entity from disclosing some of the information that would be required applying the proposals in this Exposure Draft in specific circumstances. The exemption is designed to respond to preparers’ concerns about commercial sensitivity and litigation risk but is also designed to be enforceable and auditable so that it is applied only in the appropriate circumstances (see paragraphs BC74–BC107).

The IASB proposes that, as a principle, an entity be exempt from disclosing some information if doing so can be expected to prejudice seriously the achievement of any of the entity’s acquisition-date key objectives for the business combination (see paragraphs BC79–BC89). The IASB has also proposed application guidance (see paragraphs BC90–BC107) to help entities, auditors and regulators identify the circumstances in which an entity can apply the exemption.

(a) Do you think the proposed exemption can be applied in the appropriate circumstances? If not, please explain why not and suggest how the IASB could amend the proposed principle or application guidance to better address these concerns.

(b) Do you think the proposed application guidance would help restrict the application of the exemption to only the appropriate circumstances? If not, please explain what application guidance you would suggest to achieve that aim.

We do not believe that the proposed exemption could be applied in appropriate circumstances and that it would be extremely difficult to apply in practice, particularly as the application of the exemption would be subject to audit. Furthermore, we do not believe that the circumstances in which the exemption could be applied sufficiently address the concerns raised by stakeholders and other respondents to the Discussion Paper *DP/2021/1 – Business Combinations – Disclosures, Goodwill and Impairment*.

For privately owned businesses, the disclosure of the key objectives and related targets for a ‘strategic acquisition’ are potentially seriously prejudicial to the achievement of those objectives and targets, in particular those with respect to existing and acquired workforce and cost-based targets or objectives. Furthermore, paragraph B67D (a) explicitly states:

‘… a risk of potential weakening of competitiveness due to disclosing an item of information is not, on its own, sufficient reason to avoid disclosing the information.’

Our view is that disclosure of key objectives and targets, which may weaken competitiveness of either the acquirer or the acquiree, would potentially prejudice the achievement of the acquirer’s acquisition date key objectives. For example, disclosure of employee related information may result in loss of these key employees required to achieve the acquirers key-acquisition related objectives.

Furthermore, we believe that it would be beneficial for the IASB to include illustrative examples of circumstances where the proposed exemption could be required.

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?

We agree that the information an entity should be required to disclose for a 'strategic' business combination should be the information reviewed by the entity's key management personnel, as defined in IAS 24 *Related Party Transactions*.

We do not agree with the disclosure in B67B(a). Given that most business combinations are integrated into existing segments or Cash Generating Units of the acquiring entity shortly after acquisition date, we believe that the required information will only be disclosed in rare circumstances.

Therefore, we believe disclosure of information about the key performance indicators of a strategic business combination should be subject to a minimum of two years.

In terms of disclosure of acquisition-date key objectives and related targets, our view is that any income or expense items disclosed in accordance with these requirements should follow the principals set out in paragraphs 117 to 125 of IFRS 18 *Presentation and Disclosure in Financial Statements*.

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?

New disclosure objectives (proposed paragraph 62A of IFRS 3) and requirements to disclose quantitative information about expected synergies in the year of acquisition (proposed paragraph B64(ea) of IFRS 3).

We agree with the proposals in paragraph 62A(a) and B64(d) of IFRS 3 to disclose information that enables financial statement users to understand the benefits that an entity expects from a business combination.

However, we do not agree with the proposals in B64(ea) of IFRS 3, requiring the disclosure of quantitative information regarding the expected synergies from the combining operations of the acquirer and the acquiree. Our view is that the information required by the disclosures should not be included in the financial statements, as it is forward looking information, and it would be better to incorporate the proposed amendments in the IASB project on *Management Commentary*.

Furthermore, the requirement in IFRS 3 B64(ea)(iii), requiring disclosure of the time period synergies are expected to last, emphasises our view that the synergies from a business combination have a finite life which would be more faithfully represented in financial statements with the amortisation of goodwill, rather than an impairment model.

We do not believe that it would be practical to quantify the expected synergies from a business combination, impacting the usefulness and reliability of these disclosures. Furthermore, we believe that there would be an undue cost and effort, both in terms of the quantification of expected synergies and auditability of the disclosures.

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

We agree with the proposed amendments to include disclosure of operating profit of the acquiree in paragraphs B64(q) of IFRS 3, as this aligns with the new disclosure requirements being introduced into IFRS 18 *Presentation and Disclosure in Financial* Statements.

However, we do not agree with the amendment in B64(q)(ii) of IFRS 3, requiring management to develop an accounting policy to prepare the information. We believe guidance should be provided to ensure consistency when applying the amendment.

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

We agree with the proposed amendment to require disclosure of each class of assets acquired and liabilities assumed in a business combination.

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

We have no objections to the proposed deletion of the disclosure requirements in paragraphs B64(h), B67(d)(iii) and B67(e) of IFRS 3). We believe that these disclosures do not provide useful or relevant information in light of new standards and amendments issued since the last amendment to IFRS 3 in 2018.

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?

We agree with the proposed amendments to paragraphs 80–81, 83 and 85 of IAS 36. We believe that these amendments will provide useful clarifications to impairment testing. However, we believe that further clarification is required in terms of whether the application of these requirements is accounted for as a change to the allocation of assets to the CGU's or a change in cashflows from the CGU's. As noted in our response to Question 9, we believe that any changes to goodwill as a result of applying the amendments to impairment testing should be reflected in equity from the date of initial application of the amendments. We would also suggest that the proposed amendment clarify how goodwill should be determined based on the new allocation, for example, goodwill could be determined by reference to paragraph 87 of IAS 36 *Impairment of Assets*.

Furthermore, we agree with the proposal in IFRS 3 paragraph 134(a) to include details of the reporting segment to which goodwill is allocated for entities which apply IFRS 8 *Segmental Reporting.*

Question 7 —Chang es to the impairment test: Value in use (paragraphs 33, 44–51, 55, 130(g), 134(d)(v) and A20 of IAS 36)

The IASB is proposing to amend how an entity calculates an asset's value in use. In particular, the IASB proposes:

- **To remove a constraint on cash flows used to calculate value in use. An entity would no longer be prohibited from including cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance (see paragraphs BC204–BC214).**
- **To remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. Instead, an entity would be required to use internally consistent assumptions for cash flows and discount rates (see paragraphs BC215–BC222).**

(a) Do you agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance? Why or why not?

(b) Do you agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use? Why or why not?

We agree with the proposals to remove the constraint on cash flows arising from a future restructuring to which the entity is not yet committed and asset enhancement from value in use calculation. However, we are concerned that the disclosure requirements of IAS 36 Impairment would result in employees being made aware of future restructuring through the financial statements, rather than being informed by management once restructuring is committed to, which may present challenges for some jurisdictions.

We agree with the proposals to remove the requirement to use pre-tax cash flows and pre-tax discount rates in value in use calculations, which aligns to current practical application, management forecasting and budgeting. We believe that the standard would benefit from additional guidance, as suggested below, to avoid overly optimistic value in use calculations:

- In the event of significant plan shortfalls in the prior 2 years, a flat-rate reduction of the planned future cash flows must be applied; and
- A growth rate in the perpetual annuity that deviates from the inflation rate must be based on objective criteria.

Question 8 — Proposed amendments to IFRS X *Subsidiaries without Public*

Accountability: Disclosures

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

- **Information about the strategic rationale for a business combination (proposed paragraph 36(ca) of the Subsidiaries Standard);**
- **Quantitative information about expected synergies, subject to an exemption in specific circumstances (proposed paragraphs 36(da) and 36A of the Subsidiaries Standard);**
- **Information about the contribution of the acquired business (proposed paragraph 36(j) of the Subsidiaries Standard); and**
- **Information about whether the discount rate used in calculating value in use is pretax or post-tax (paragraph 193 of the Subsidiaries Standard).**

See paragraphs BC252–BC256.

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

We agree with the proposed amendments to IFRS X *Subsidiaries without Public Accountability: Disclosures (‘Subsidiaries Standard’)* 36(ca) to require entities to disclose information about the strategic rationale for a business combination.

We do not agree with the proposed amendments to proposed paragraphs of 36(da)(i)–(ii) of the *Subsidiaries Standard* to quantify the expected synergies from a business combination. As explained in our response to Question 5, we do not agree with the proposed disclosure of quantitative information for each category of expected synergies.

We agree with the proposed amendments to *Subsidiaries Standard* paragraphs 136(j)(i). We agree with the proposed amendments to *Subsidiaries Standard* paragraphs 136(j)(ii), with the exception of the disclosure of the accounting policy, as noted in our response to Question 5.

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.

We agree with the proposals on transition. However, we believe that where there is a change in allocation of CGU's as a result of the amendments to IAS 36 paragraphs 80–81, the impact should be reflected in equity.

NO FURTHER COMMENTS

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