

# IASB/ ED/2024/1 Business Combinations – Disclosures, Goodwill and Impairment

Proposed amendments to IFRS 3 and IAS 36

Exposure Draft issued by the IASB in March 2024

Comments from ACCA  
11 July 2024

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## GENERAL COMMENTS

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ACCA welcomes the opportunity to provide views in response to the IASB's exposure draft (ED) for *Business Combinations – Disclosures, Goodwill and Impairment* that aims to provide better information about the performance of business combinations and to improve the approach for testing cash-generating units (CGUs) containing goodwill for impairment. Our response has been developed with the assistance of ACCA's Global Forum for Corporate Reporting.

Our general comments are as follows:

We are supportive of the proposals to provide better information about the performance of business combinations, subject to an exemption from disclosing information that could prejudice seriously the acquirer's key objectives for the business combination. Goodwill is often described as 'synergy' without those synergies being explained. The proposed additional information would help users understand the reasons for the business combination, and to evaluate the purchase price and the resulting goodwill against the expected benefits and for a subset of those business combinations (ie strategic business combinations), the extent of obtaining these benefits after acquisition. This information is important for holding an entity's management accountable for spending substantial amounts of resources to acquire another business. Details are included within our comments to questions 1 – 5.

However, there are several matters that require the IASB's attention including the proposed use of thresholds, the potential use of non-financial targets and key management personnel. Details are included within our comments to questions 2 and 4.

While the proposals appear sensible, it remains to be seen if the additional information would be effective in explaining the expected synergies from business combinations to users. This should be gauged during the post-implementation review phase. Besides, we suggest conducting research on good practice and also collating examples of good quality information about business combinations from a user's perspective, in particular investors, to provide further guidance to preparers.

As for improving the approach to test CGUs containing goodwill for impairment, we support the proposals that clarify the approach for allocating goodwill to CGUs and determining the financial information for monitoring the business associated with the goodwill.

However, we have reservations about the effectiveness of the proposals to disclose the reportable segment containing CGUs with goodwill and the removal of constraint on including cashflows from uncommitted future restructuring or improvement or enhancement to an asset's performance. We do not believe these proposals would improve the testing of CGUs containing goodwill for impairment. Further detail can be found in our comments to questions 6 and 7.

Finally, most of the proposed transition approaches are pragmatic, but we are concerned about not providing a relief to first-time adopters in applying the amendments to IFRS 3 and the Subsidiaries Standard prospectively. Further detail can be found in our comments to question 9.

## RESPONSES TO SPECIFIC QUESTIONS RAISED

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### 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?

#### **ACCA response**

We agree with the IASB's proposal to disclose information about the performance of a strategic business combination, subject to an exemption, as the information would

likely help users evaluate the price paid for acquiring another business against the expected benefits and the extent of obtaining these benefits after acquisition.

We believe this information is important for holding an entity's management accountable for spending substantial amounts of resources to acquire another business.

We note this requirement is for a subset of all business combinations in a year. Determining whether a business combination is a strategic business combination may be subject to judgement. Details are in our comments to question 2.

## **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?

### **ACCA response**

We believe requiring the information about key objectives, the related targets and their performance for strategic business combinations only will address concerns about disclosure overload. The proposal indicates a management approach to disclosure. However, the approach to identifying a strategic business combination needs improvement.

While the proposed thresholds remove the need for complex judgements when evaluating whether a business combination constitutes a strategic business combination, stakeholders have informed us about potential challenges where the thresholds may be too low and risk capturing business combinations that management do not perceive as 'strategic'.

We note there are precedents in using thresholds such as in IFRS 8 *Operating Segments*. The proposed paragraph B67C(a)(i) is a simplification of paragraph 13(b) of IFRS 8. An acquiree that meets one of the proposed quantitative thresholds in paragraph B67C could become a reportable segment based on paragraph 13 of IFRS 8. While entities that report operating segments may have the data specified in paragraph 13(b) of IFRS 8, that may not be the case for entities that do not report operating segments.

We are supportive of using the qualitative threshold in paragraph B67C(c). In addition, we suggest the IASB consider expanding the quantitative and qualitative thresholds to include non-financial thresholds. Acquisitions may be driven by non-financial objectives like managing the entity's climate-related risks or other sustainability-related risks or opportunities (SRROs) which may include reducing pollution (air, water, soil, etc) that result from the entity's activities.

Therefore, we suggest using a principles-based approach in identifying strategic business combinations. Using a set of principles in conjunction with thresholds as guidelines, rather than solely thresholds, would be consistent with the management approach to disclosure and cater to a broader range of circumstances.

There are several matters regarding the proposals to identify strategic business combinations for the IASB's consideration.

- a) A set of principles should be used by entities to identify strategic business combinations.
- b) Quantitative and qualitative thresholds may be used to supplement a set of principles in evaluating whether an acquiree qualifies as a strategic business combination. We suggest the IASB provide examples of thresholds for guiding the application of the principles and permit entities to determine thresholds that are appropriate for their circumstances. Therefore, entities should be required to explain the approach and rationale used for determining the thresholds used.
- c) In the case of large groups, an acquisition could be a strategic business combination for the intermediate parent but not in the consolidated financial statements of the ultimate parent. This could be confusing for groups that prepare consolidated financial statements at several levels. We suggest the IASB provides guidance for dealing with this situation.
- d) An acquisition could be a strategic business combination in the year of low profit. Unlike paragraph 13 of IFRS 8, paragraph B67C does not specify the number of thresholds that need to be met for a business combination to be considered a strategic business combination. This needs to be clarified.

- e) Different benchmarks are used in paragraphs B67C(a) and B67C(b), where (a) uses the most recent annual reporting period before the acquisition date, while (b) uses the acquirer's most recent reporting period date before the acquisition date. For entities that prepare interim financial reports on a quarterly basis, (b) could be the most recent quarter. We suggest aligning the benchmarks in (a) and (b) for consistency.
- f) It is not clear what constitutes a 'major line of business or geographical area of operations'. We suggest the IASB provides guidance for these applying these qualitative thresholds.

### **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.

#### **ACCA response**

We are supportive of providing an exemption to entities from disclosing information described in paragraphs B64(ea), B67A(a) or B67A(b)(ii) *'if doing so can prejudice seriously the achievement of any of the acquirer's acquisition-date key objectives for the business combination'* [paragraph B67D].

The proposed exemption is important for entities to continue complying with the IFRS Accounting Standards while navigating circumstances that prevent them from disclosing the required information.

We believe this exemption would cover situations where an entity:

- is restricted by legal obligations (eg confidentiality clause in contracts) from providing certain information, or
- is restricted by legislation from providing forward-looking information.

Unlike the above situations that are based on contractual or legal restrictions, an entity may have expectations about:

- a piece of information (eg quantitative information of expected synergies) being commercially sensitive and could be used by competitors, or
- litigation risk arising from disclosing forward-looking information about a business combination.

What constitutes ‘seriously prejudicial’ may arise from different contexts and is subject to judgement. Hence, we support the proposal in paragraph B67D(a) requiring acquirers to describe specific reasons that identify the seriously prejudicial effect the entity expects to result from disclosing an information. This way, auditors and users can evaluate whether the reasons provided by the entity to justify non-disclosure of certain information is reasonable.

We agree that a general risk of a potential weakening of competitiveness that may result from disclosing an item of information is not, on its own, sufficient reason to apply the exemption. We believe this is an important clarification to prevent this exemption from being misused. The rest of paragraph B67D(a) is consistent with the principle of neutrality.

We support the proposal in paragraph B67E to require an acquirer to disclose the fact that it has applied the exemption and the reasons it has not disclosed an item of information.

We also support the proposal in paragraph B67G to reassess at each reporting date whether the information is still eligible for exemption and to do this until the entity is no longer required to disclose the information.

#### **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?

#### **ACCA response**

##### **4(a) Information about strategic business combinations reviewed by key management personnel**

We support the proposal to disclose information about the performance of an entity's strategic business combinations that is reviewed by its key management personnel. As mentioned in our comments to question 1, this information (acquisition-date key objectives and related targets and whether these key objectives and related targets are being met) could hold management and those charged with governance accountable for spending substantial amounts of the entity's capital on acquiring another business.

The proposed approach would enable entities to use information that is already prepared for key management personnel and so, disclosing the information would not incur incremental costs. Further, users will benefit from receiving information that could help them gauge the performance of a business combination as seen through the eyes of key management personnel.

We note the possibility of this information being prepared solely for monitoring the progress of achieving the key objectives and targets (sometimes called proforma



information), and thus may not correspond to any amounts disclosed in the acquirer's consolidated financial statements.

We are supportive of providing a statement on whether actual performance is meeting or has met the acquisition-date key objectives and related targets [paragraph B67A(b)(ii)]. This affirmative statement would provide a clear message to users.

We believe the key management personnel is an appropriate level of management in this context as these personnel have the authority and responsibility to plan, direct and control the entity's activities. Using the concept of key management personnel is consistent with a principles-based approach that allow entities to designate the appropriate management personnel in practice.

We also note this proposal is consistent with paragraphs 126 to 128 of the new IFRS 18 that require an entity to disclose information that enables users to evaluate the entity's objectives, policies and processes for managing capital.

However, entities may need further guidance on determining precisely the key management personnel for the information to be disclosed. Consider a large group with several layers of subsidiaries where a business combination is considered a strategic business combination of an intermediate parent instead of the ultimate parent (or ultimate holding company).

#### Other comments on acquisition-date key objectives and related targets

We agree with the proposed definition for 'key objective' and 'target' in Appendix A.

We suggest the IASB clarify whether non-financial targets can be used in evaluating the performance of a business combination as business combinations may be undertaken for reasons not directly related to financial. For example, an entity may acquire another business for its technology to reduce the acquirer's pollution, make its processes more efficient, or consume energy more efficiently.

#### **4(b)(i) Disclose information for as long as key management personnel review that information**

We support the proposal in B67B to require an entity to disclose the information about the performance of a strategic business combination described in paragraph B67A(b) for as long as the entity's key management personnel review that information.

If an entity's key management personnel do not start reviewing or do not plan to review the performance of a strategic business combination, users would benefit from knowing the reasons for not reviewing the progress of achieving key objectives and targets.

We believe the proposed paragraph B67B(b) should not be limited to the second annual reporting period. This disclosure should be made in the year when the key management personnel stop reviewing the key objectives and targets. If the objectives have been met, in which case, supported by achieving the targets, or other reasons, that should be disclosed.

We support the latter part of paragraph B67B(b) that acts as a backstop for preventing entities from avoiding disclosure when key management personnel continue to receive information about the progress of achieving key objectives and targets for a strategic business combination. However, guidance is needed on what constitutes a review for the requirement to be effective.

**4(b)(ii) Disclosure when key management personnel do not review that information**

We disagree with requiring an entity 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. Instead, we suggest requiring the entity to disclose the reasons for not reviewing the progress.

However, we believe the information about the key objectives and targets described in paragraph B67A(a) should be disclosed in the year of acquisition regardless of key management personnel reviewing the progress of achieving them.

In addition, entities should be prevented from avoiding disclosures on the basis that key management personnel are not the ones reviewing information described in paragraph B67A. In such cases, the reviewers should be identified, and the required information should be disclosed.

## **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?

**ACCA response**

**New disclosure objectives**

We support the new disclosure objectives proposed in paragraph 62A of IFRS 3 to provide users with information about the benefits an entity expects from a business combination and for a subset of those business combinations (ie strategic business combinations), the extent of obtaining those benefits. We believe an acquirer would have information about the benefits from when it is evaluating a prospective acquiree.

However, we suggest clarifying whether the term 'benefit' in paragraph 62A corresponds directly with 'expected synergies' in paragraph B64.

**Information about expected synergies in the year of acquisition**

We support the proposal in paragraph B64(ea) to describe expected synergies by category and to disclose the quantitative information for each category of synergies.

This information helps users to understand the entity's reasons for acquiring another business. We believe the acquirer should have this quantitative information available when evaluating prospective acquirees and negotiating the purchase considerations. Not having this information would reflect poorly on the governance of the acquirer.

However, we note these are forward-looking information and potentially commercially sensitive. The litigation risk from disclosing this information may temper management's overoptimism when pursuing business combinations.

**Strategic rationale for a business combination**

We support the proposal in paragraph B64(d) to disclose the 'strategic rationale' for a business combination and we support the term's definition in Appendix A.

An entity's reasons for acquiring another business could be related to increasing its market share globally or in a region, reducing pollution, managing its risks, or acquiring a defensive intangible asset<sup>1</sup>. These reasons vary from one entity to another and therefore the proposed approach would ensure the information is customised to the specific entity.

**Contribution of the acquired business**

We note the proposal to amend paragraph B64(q) clarifies existing requirements, and we are supportive.

**Classes of assets acquired, and liabilities assumed**

We are supportive of the amendment.

**Deleting disclosure requirements**

We support deleting outdated requirements that have been superseded as explained in paragraph BC183.

**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).

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<sup>1</sup> This refers to an intangible asset that an acquirer does not intend to use but is acquired to prevent others from using it.

### *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?

## **ACCA response**

### **Proposals to reduce shielding**

We agree with the proposed amendment to paragraph 80(a) of IAS 36 that clarifies goodwill has to be allocated to the lowest level within an entity at which the business associated with the goodwill is monitored by management.

We agree with the proposed paragraph 80A that clarifies the sequence in applying paragraphs 80(a) and 80(b) and helps entities determine the financial information to be used in monitoring the business associated with the goodwill.

The proposed paragraph 80B also clarifies the sequence in applying paragraphs 80(a) and 80(b), and thus seems redundant.

We agree with the proposed amendments to paragraph 81.

We also agree with the proposed paragraphs 83(a) and 83(b) that clarify the different levels at which goodwill may be monitored by an entity for different purpose, and so avoiding confusion.

### **Proposal to reduce management over-optimism**

We do not believe the proposal in paragraph 134(a) of IAS 36 to disclose the reportable segment of CGUs containing goodwill will be effective in reducing management over-optimism.

When a reportable segment contains more than one cash-generating unit (CGU), users may face difficulties reconciling the assumptions used to determine the CGU's

recoverable amount with the segment's information, thereby negating the intention to enable users to compare these assumptions with the information they receive about reportable segments.

The existing paragraph 134 of IAS 36 already require extensive disclosure of the basis and assumptions used to determine the recoverable amounts of specific CGU or group of CGUs containing goodwill. Paragraphs 134(d) and 134(e) already contain safeguards that mitigate the risk of cashflow forecasts being too optimistic.

Disclosure may temper management over-optimism to some extent, but it needs to be supplemented by other mechanisms. For example:

- Stewardship of those charged with governance to ensure the assumptions used in determining recoverable amounts are reasonable and supportable for the product, industry, market, location, etc.
- Auditors exercising professional scepticism to challenge material inconsistency between the assumptions used and the auditor's knowledge about the entity and its environment.
- Users, in particular investors, use appropriate channels to actively convey enquiries or challenge overly optimistic assumptions used in determining recoverable amounts.

**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?

## ACCA response

### **Removing the constraint on including cashflows from uncommitted future restructuring or improvement or enhancement to an asset's performance in calculating value in use**

We have reservations about the effectiveness of the proposal in paragraph 44A(b) of IAS 36 to improve the approach for testing CGUs containing goodwill for impairment.

The proposed paragraph 44A(b) does not require the entity to have committed to the restructuring, improvement or enhancement to the asset's performance before including the associated cashflows into the calculation of value in use (VIU).

With this proposal, an asset or assets in a CGU could be restructured, improved or enhanced to its maximum potential for the purpose of impairment assessment. Considerations may include whether the entity has the ability to do that, which would introduce more variables and hypothetical scenarios into the calculation of the asset's VIU.

Restructuring may require a considerable amount of effort and resources to execute. As paragraph 46 of IAS 36 (and paragraph 10 of IAS 37) states: *'A restructuring is a programme that is planned and controlled by management, and materially changes either:*

- (a) the scope of a business undertaken by an entity, or*
- (b) the manner in which that business is conducted.'*

We note there is no requirement for the future restructuring, or improvement, or enhancement to assets to be authorised, or even reviewed by the entity's management. Consequently, it is arguable whether paragraph 33 covers the cashflows arising from plans for future restructuring, or improvement, or enhancement to assets that the entity has yet to commit, although paragraph 44A(b) makes reference to paragraph 33. This would introduce complications in practice, exacerbate the risk of management over-optimism in the assumptions used in determining value in use and potentially delay the accounting for impairment.

Conceptually, the proposal appears to contradict the requirement in paragraph 44 on estimating an asset's future cashflows in its current condition. The proposal straddles between the concept of 'current condition' and the concept of 'highest and best use' in paragraphs 28 – 30 of IFRS 13, as it considers the asset's potential instead of its current condition when estimating future cashflows. We believe including these cashflows does not represent testing an asset for impairment in its current condition.

If the IASB proceeds with this proposal, we suggest:

- clarifying that the future restructuring, or improvement, or enhancement to assets needs to have been reviewed by the entity's management. The objective of the review is to ensure that the estimates appropriately reflect consideration of all available reasonable and supportable information as of the date of the value in use calculation. We believe this is a matter of accountability and good governance, and

- reviewing the requirement in paragraph 44 to test an asset for impairment in its current condition.

Therefore, we disagree with the proposals in paragraphs 33(b), 44, and 44A(b). Accordingly, we can neither agree nor disagree with the proposed deletion of paragraphs 45 – 48, which are linked to removing the constraint on including cashflows from uncommitted future restructuring or improvement or enhancement to an asset's performance. These paragraphs may remain intact if the IASB do not proceed with these proposals.

We agree with the proposed paragraph 44A(a) which is essentially a relocation of the existing paragraph 49 of IAS 36, and the proposed deletion of paragraph 50(b).

Lastly, users would benefit from knowing the extent that value in use is derived from uncommitted future restructuring or improvement or enhancement to an asset's performance. Paragraph 134 of IAS 36 should be amended to require disclosure of these assumptions used in calculating the value in use.

#### **Allowing use of post-tax discount rates and post-tax cashflows in calculating value in use**

We agree with providing entities with the flexibility to use either pre-tax rates or post-tax rates in calculating value in use so long as consistent assumptions are used for estimating the future cashflows and the discount rate.

Therefore, we support the proposals in paragraphs 51, 55, 130(g), 134(d)(v) and A20 of IAS 36.

### **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 pre-tax or post-tax (paragraph 193 of the Subsidiaries Standard).

See paragraphs BC252–BC256.

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



**ACCA response**

We agree with the proposals. The proposed disclosures have been sufficiently scaled down for eligible subsidiaries. The proposed information on business combinations is essential for users to understand the reasons for a business combination.

**QUESTION 9 – TRANSITION (PROPOSED PARAGRAPH 64R OF IFRS 3, PROPOSED PARAGRAPH 1400 OF IAS 36 AND PROPOSED PARAGRAPH B2 OF THE SUBSIDIARIES STANDARD)**

The IASB is proposing to require an entity to apply the amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively from the effective date without restating comparative information. The IASB is proposing no specific relief for first-time adopters. See paragraphs BC257–BC263.

Do you agree with the proposals? Why or why not? If you disagree with the proposals, please explain what you would suggest instead and why.

**ACCA response**

We agree with applying the amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively from the effective date without restating comparative information. This approach results in entities monitoring the performance of business combinations that happen on or after the effective date and enable entities to provide information on business combinations during the financial period in a timely manner. We believe this approach is more cost-effective than retrospective application.

We note the difficulty in providing a relief to first-time adopters for applying the amendments to IAS 36.

However, not providing a relief to first-time adopters to apply the amendments to IFRS 3 and the Subsidiaries Standard prospectively would result in the key management personnel of first-time adopters reviewing the performance of past business combinations and disclosing the comparative information. We are not convinced the benefits of providing this comparative information will justify the costs.