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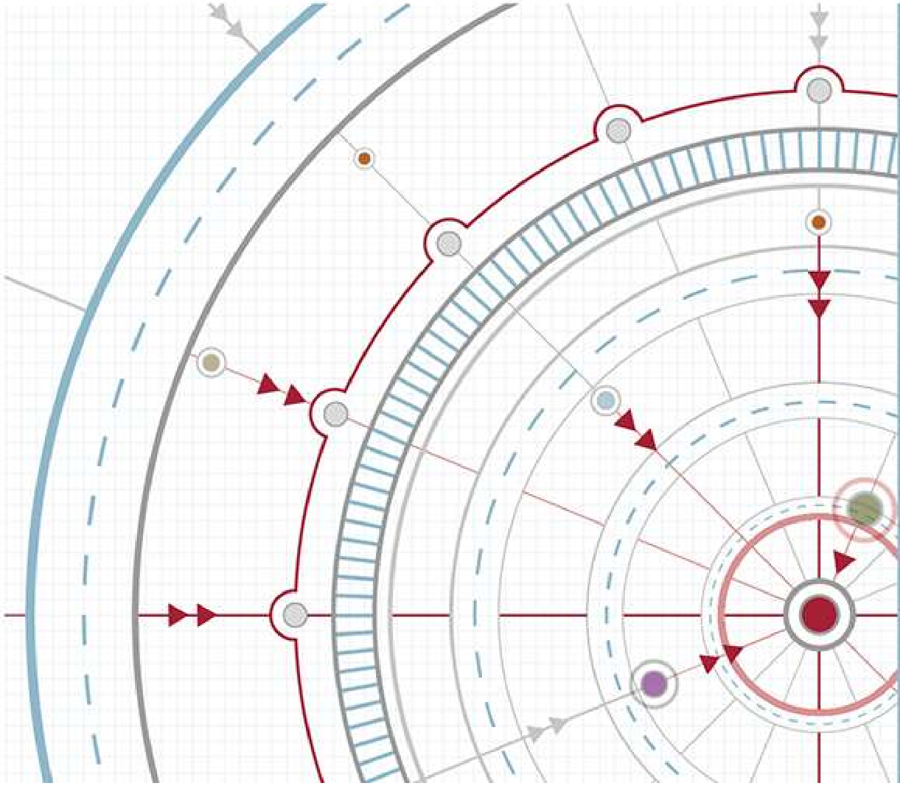

Discussion Paper

Business Combinations—Disclosures, Goodwill and Impairment

Improving disclosures about acquisitions

21 October 2020

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or IFRS Foundation.

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Before we start

Housekeeping

The views expressed are those of the presenters, not necessarily those of the International Accounting Standard Board (Board) or the IFRS Foundation.

The full text of the Discussion Paper is available at https://cdn.ifrs.org/-/media/project/goodwill-and-impairment/goodwill-and-impairment-dp-march-2020.pdf.

For a summary of the Discussion Paper, you may refer to the project snapshot at https://cdn.ifrs.org/-/media/project/goodwill-and-impairment/goodwill-impairment-dp-snapshot.pdf.

To ask a question during the webinar, type it into the designated text box on your screen and click 'submit'. You can submit questions at any time during the presentation. We'll try to answer them at the end of the presentation.

Project background & overview

The Discussion Paper

Objective

To improve the information companies provide to investors, at a reasonable cost, about the acquisitions those companies make.

Timeline

- 2004 — IFRS 3 issued*
- 2013–2015 — PIR of IFRS 3
- 2015–present — Goodwill and Impairment project
- March 2020 — Discussion Paper

Feedback

The Board is mainly seeking comments on:

- the usefulness and feasibility of its new disclosure ideas; and
- new evidence or arguments on how to account for goodwill.

Comment deadline 31 December 2020

* IFRS 3 introduced the impairment-only approach and replaced IAS 22 which required amortisation.

The Board's preliminary views

1 Improving disclosures about acquisitions	Require companies to disclose: • management's objectives for acquisitions; and • how acquisitions have performed against those objectives subsequently. Some targeted improvements to existing disclosures.	
2 Improving the accounting for goodwill	A Can the impairment test be made more effective?	Not significantly, and not at a reasonable cost.
	B Should goodwill be amortised?	No, retain the impairment-only model.
	C Can the impairment test be simplified?	Yes, provide relief from the annual impairment test and simplify value in use.
3 Other topics	• Present on the balance sheet the amount of total equity excluding goodwill. • Do not change recognition of intangible assets separately from goodwill.	

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Subsequent performance of acquisitions

What is the issue?

What is the issue?

Investors do not get enough information about acquisitions and their subsequent performance

- Such information would allow investors to hold management to account (stewardship).
- IFRS Standards do not specifically require companies to disclose information about the subsequent performance of acquisitions.

Board's preliminary view: require disclosures

At the acquisition date:

- Strategic rationale for acquisition
- Objectives for the acquisition
- Metrics for monitoring achievement of objectives

After the acquisition date:

Performance against objectives

What information should be disclosed?

Board's preliminary view: Companies should disclose information management uses internally to monitor acquisitions

What metrics should be disclosed?

- No single metric suitable, because business combinations are all different
- Management approach:
  - Less costly to produce
  - Insights into how management manages acquisitions
- Can be operational or financial metrics
- Might be information about combined business where integration occurs

Should all material acquisitions be disclosed?

- Disclosure of all material acquisitions could be onerous for serial acquirers
- Preliminary view: define 'management' as 'chief operating decision maker' (CODM) (IFRS 8 *Operating Segments*)
- Are these the acquisitions that investors would like to know more about?

For how long should information be provided?

For as long as management monitors the acquisition

What if the CODM changes the metrics they use for monitoring?

Companies should disclose the new metrics and the reasons for the change.

At acquisition date	
if monitored by CODM disclose objectives	if not monitored by CODM disclose reason for not monitoring
Within 2 years*	
if monitoring continues disclose performance against objectives	if monitoring ceases disclose reason for ceasing to monitor
After 2 years*	
if monitoring continues disclose performance against objectives	if monitoring ceases no further disclosure needed

*Two full years after the year of acquisition

Areas of focus

Should this information be in management commentary?

Board's preliminary view: Companies should disclose information about acquisitions and their subsequent performance in financial statements

What concerns do stakeholders have?

- Management's view
- Information might not be prepared in accordance with IFRS
- Information may be forward looking

Why include in financial statements?

- Management commentary does not always include information about acquisitions
- Management commentary is not always available to users of financial statements

Things to consider

- What information could a company report in management commentary it cannot in financial statements?
- Would companies provide information about the subsequent performance of acquisitions if it were encouraged, not required?

Is this forward looking information?

Board's preliminary view: The information discussed in the Discussion Paper is not forward looking.

Target at time of acquisition

Management's historic aim at the time of the acquisition

Forecast when publishing the report

A current expectation or prediction of future performance

Things to consider

What legislation in your jurisdiction addresses forward-looking information? In what way does it restrict management's ability to describe its targets in financial statements?

Integration

Stakeholders say	Board's preliminary view
Integration may make it difficult to isolate performance	Management might plan to monitor the subsequent performance of the acquisition using information about the combined business. If so, disclosure would therefore use that combined information.
Acquisitions might not be monitored if integration happens quickly	Even when an acquired business has been integrated, it is assumed management understands how the acquisition is performing, at least in the early period. If management stop monitoring an acquired business before the end of the second full year after the year of acquisition, it would disclose that fact.

Things to consider	In your experience, how are acquisitions monitored by management when integration occurs?

Other concerns heard so far

	Message from stakeholders	Preliminary view of the Board
Commercial sensitivity	• May provide competitors with information that would not otherwise be available. • May give away future acquisition targets, driving up any future acquisition price.	• Not a sufficient reason to prevent disclosure of information investors need. • Users want a follow-up on information already provided at the time of acquisition.
Auditability	• Some stakeholders are concerned that the information a company discloses would not be auditable.	Expect that auditors can confirm information: • is used by management • has a clear basis of preparation; and • faithfully represents performance.

Things to consider

What information do you consider commercially sensitive and why?

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Other disclosure improvements

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Other improvements to IFRS 3 disclosures

	Message from stakeholders	Preliminary view of the Board
Expected synergies	• Companies often qualitatively describe synergies as a factor that makes up goodwill • Quantitative information would help investors better understand the acquisition price	Require companies to disclose in the year of acquisition the amount, or range of amounts, of synergies expected from an acquisition.
Defined benefit pension liabilities & debt	• This information is not always separately disclosed as a major class of liability • Investors say this information is needed to assess return on capital employed	Require companies to disclose the amount of defined benefit pension liabilities and debt of the acquiree at the acquisition date, separately from other classes of liabilities.
Pro-forma information	• Existing disclosure requirements lack guidance, resulting in diversity in practice. • Preparers question the usefulness of the information, while investors think that the information is important.	Require companies to disclose both actual and pro-forma revenue, operating profit and cash flows from operating activities.

Further information

The deadline for comments on the Discussion Paper is **31 December 2020**.

For further information on the project and the Discussion Paper please visit www.ifrs.org/projects/work-plan/goodwill-and-impairment/.

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