



Ernst & Young Global Limited
1 More London Place
London
SE1 2AF

Tel: +44 20 7951 2000
Fax: +44 20 7951 1345
ey.com

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

11 July 2024

Dear IASB members,

Exposure Draft IASB/ED/2024/1 Business Combinations - Disclosures, Goodwill and Impairment - Proposed amendments to IFRS 3 and IAS 36

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the International Accounting Standards Board's (IASB or the Board) Exposure Draft IASB/ED/2024/1 Business Combinations - Disclosures, Goodwill and Impairment - Proposed amendments to IFRS 3 and IAS 36.

We welcome and support the IASB's effort to improve disclosures for business combinations post-acquisition and we believe that the information will be useful to investors.

We would like to highlight the following observations that we address in the detailed responses to the specific questions in the Exposure Draft:

- ▶ The IASB proposes to use a threshold approach to determine strategic business combinations. We agree that a subset of material business combinations should be identified, however, we have some concerns about the thresholds that have been identified. We suggest that the IASB applies a more principles-based approach focusing on the description of a strategic business combination included in paragraph BC54, that is, a business combination 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 addition, we suggest including rebuttable presumptions based on the quantitative thresholds in B67C(a-b). We suggest removing the qualitative threshold in B67C(c) as this does not cover all the qualitative reasons for a business combination to be captured by the description. This approach would ensure entities can avoid anomalous outcomes of applying the quantitative thresholds.
- ▶ The IASB proposes an exemption from certain disclosures in IFRS 3 if the information can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives. We agree that an exemption is appropriate, but we have some concerns about the practical application. Therefore, we suggest that the IASB includes further examples to explain how the exemption will work in specific circumstances.
- ▶ The disclosures appear to be developed on the assumption that the disclosures relate to financial or numerical information (revenue growth, profits, market share). We believe the quantitative disclosures should be specifically limited to information derived from the entity's books and records used to prepare the financial statements and should not cover non-financial items. We also suggest removing the statement in paragraph BC145(c) regarding whether the information

disclosed faithfully represents what it purports to represent, to avoid any misunderstanding about the nature of the audit procedures performed and resulting assurance given.

- ▶ We welcome and support the proposed clarifications to the guidance in paragraph 80 of IAS 36 regarding the impairment testing of goodwill. We make a number of suggestions for further guidance in order for the amendments to achieve their objective, that is to ensure that the (groups of) CGU(s) that contain(s) goodwill are tested at an appropriate level. In particular, entities may have difficulty understanding how the proposed guidance would affect the level at which goodwill is being tested.
- ▶ Whilst we support the amendments to the cash flows used in the determination of the value in use, we recommend adding guidance to mitigate diversity in practice.
- ▶ Considering the significance of the amendments to IAS 36, we suggest the IASB provide guidance to clarify whether the initial application of the guidance is sufficient to trigger a new impairment test that may result in a significantly different outcome (recognition of new or reversal of past impairment losses) or whether the entity is required to reflect the impact for the first time when another reason triggers an impairment test or, where applicable, the annual mandatory impairment test is applied.

A summary of our response to the questions are set out in the Appendix to this letter. Should you wish to discuss the contents of this letter with us, please contact Michiel van der Lof at the above address, or Cell: +31 6 212 52634.

Yours faithfully

Ernst + Young Global Limited

Appendix - Detailed responses to specific questions

Proposed changes to IFRS 3

Question 1—Disclosures: Performance of a business combination (proposed paragraphs B67A-B67G of IFRS 3)
<p>In the PIR of IFRS 3 and in responses to the Discussion Paper the IASB heard that:</p> <ul style="list-style-type: none"> • 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). <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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). <p>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.</p> <p>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?</p>

We welcome and support the IASB's effort to improve disclosures for business combinations post-acquisition and we believe that the information will be useful to investors.

We agree with the IASB's proposal to require an entity to disclose information about the performance of a strategic business combination. However, we note that in some cases, the proposed disclosures will relate to information typically disclosed in the management commentary section, such as information on the acquisition of new process innovations, achievement of ESG related non-financial goals or progress in essential R&D projects. We suggest that the IASB provides additional guidance on how entities are expected to apply the proposed guidance in such circumstances. In particular, we believe the quantitative disclosures should be specifically limited to information derived from the entity's books and records used to prepare the financial statements and should not cover non-financial items (e.g., subscriber turnover, ESG metrics, etc.). We consider the nature of the information

required to be similar to the pro forma information required by paragraph B64(q)(ii) and suggest that the IASB applies a similar approach to that suggested in our related comments in question 5 (i.e., to require a basis for preparation including a description of the methodology, assumptions and estimates made to prepare this information). Finally, we suggest removing the wording in paragraph BC145(c) to avoid any misunderstanding about the nature of the audit procedures performed and resulting assurance given.

We are also concerned that the proposals will result in the disclosure of boilerplate information instead of information that is useful, understandable and relevant. We suggest that the IASB clarifies the disclosure requirement in B67A(b) by applying a similar approach to paragraph B88 of IFRS 15 *Revenue from Contracts with Customers*, which refers to how information has been presented for other purposes. This could mean that the entity discloses those key performance indicators commonly used by the entity in its external communications that are relevant to the key objectives and targets. This judgement could also be further addressed in B67A(a).

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?

Use of a threshold

We agree that a subset of material business combinations should be identified, however, we have some concerns about the thresholds that have been identified.

Proposed guidance on strategic business combinations

Paragraph BC67C(a-b) refers to quantitative thresholds. We are concerned that these thresholds can generate anomalous results, for example, when the operating profit, revenues or total assets of a reporting period are negatively impacted by an unexpected event (for example, a material impairment).

In addition, paragraph B67C(c) refers to acquisitions that are related to new lines of business or access to new geographical areas of operation. We do not understand why B67C(c) only refers to new

lines of business and new geographical markets. We note that there are other reasons for an acquisition to be strategically important such as offering new products in current markets, acquiring R&D assets such as new technologies, expanding current operations, acquisition of important competitors (for example, to gain market knowledge), customers (for example, to integrate downstream processes in the value chain) or suppliers (for example, to ensure access to essential inputs). Therefore, we suggest removing B67C(c) as this does not cover all the qualitative reasons for a business combination to be captured by the description.

Therefore, in our view, the IASB should apply a more principles-based approach focusing on the description of a strategic business combination included in paragraph BC54, that is, a business combination 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 addition, we suggest including rebuttable presumptions based on the quantitative thresholds in B67C(a-b). That would give the opportunity for entities to demonstrate, by disclosing the necessary entity-specific facts and circumstances, that a transaction was not intended to be captured by the proposals.

We note that, in some cases, the acquiree does not prepare (consolidated) financial information in compliance with IFRS. We suggest the IASB clarifies whether application of the threshold would require the acquiree to prepare IFRS-compliant financial information or whether local GAAP figures can also be applied. This requirement may be similar to the disclosure requirement in paragraph B64(q) of IFRS 3.

In relation to the wording of the thresholds, we suggest the IASB addresses the circumstance where there is a series of business combinations instead of just one. In that respect, we disagree with paragraphs BC71-BC73. In addition, we suggest using the concept of "a single coordinated plan" similarly to paragraph 32(b) of IFRS 5.

Question 3 – Disclosures: Exemption from disclosing information (proposed paragraphs B67D-B67G of IFRS 3)
<p>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).</p> <p>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.</p> <ol style="list-style-type: none"> 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. 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.

Whilst we support the need for an exemption due to commercial sensitivity, we are concerned that more guidance is needed to ensure it is appropriately understood and consistently applied. Further examples would be helpful to illustrate situations where disclosure could seriously prejudice the achievement of key objectives and how the guidance should be applied to determine whether different

presentation could resolve the situation. We also note that B67F assumes that the information can be aggregated. We refer to our suggestion in question 1 that the quantitative disclosures should be specifically limited to information derived from the entity's IFRS financial statements and not cover non-financial items.

Finally, we note that further clarification on what must be disclosed when the exemption is applied would be helpful, in particular, when the exemption is applied only to a part of the information required by the ED.

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:

- a) 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;
 - b) 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
 - c) 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 welcome the IASB's provision of additional guidance on identifying the information to be disclosed, by addressing the level of management that is expected to review the achievement of a key objective and the related targets for a strategic business combination.

We note the concerns expressed in paragraph BC113 on the use of the Chief Operating Decision Maker (CODM). However, we believe that, considering the comments below, the use of the CODM concept will result in a more consistent identification of the transactions that require additional disclosures.

Firstly, we note that the purpose of the definition of key management personnel in IAS 24 *Related Party Disclosures* is not to identify a single level of management. Further guidance would, therefore, be needed to ensure consistent understanding of the intended management level.

Secondly, we note that paragraph BC114(c) refers to a disclosure requirement in IFRS 7 *Financial Instruments: Disclosures* highlighting that the IASB is not aware of concerns about the use of key management personnel in IFRS Accounting Standards. It is our experience that in practice, CODM and key management personnel are used almost interchangeably in the application of this disclosure requirement. We note that IFRS 7 refers to a CEO or Board of Directors as examples of key management personnel (IFRS 7 paragraph 34(a)).

Thirdly, we believe further guidance is needed to ensure a full understanding of the meaning of reviewing the achievement of a key objective and the related targets. In particular, we suggest the IASB clarifies the context in which the identified employee is monitoring the achievement. If the review is performed in the context of making decisions about resources to be allocated to the related activity and assess the performance of the related activity, then we believe this further supports our preference for the use of the CODM.

We also note that, based on BC124-130, it seems that if an entity were to change the metrics used to measure the performance of a business combination, it would not be required to provide information about performance using the revised metrics. We share the concerns in BC130(a) that, if the meaning of a change is not clarified further, this may result in a significant loss of information.

Question 5 – Disclosures: Other proposals
<p>The IASB is proposing other amendments to the disclosure requirements in IFRS 3.</p> <p>These proposals relate to:</p> <p><i>New disclosure objectives (proposed paragraph 62A of IFRS 3)</i></p> <p>The IASB proposes to add new disclosure objectives in proposed paragraph 62A of IFRS 3 (see paragraphs BC23-BC28).</p> <p><i>Requirements to disclose quantitative information about expected synergies in the year of acquisition (proposed paragraph B64(ea) of IFRS 3)</i></p> <p>The IASB proposes:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 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.

Question 5 – Disclosures: Other proposals

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)

We generally support the proposed changes.

Requirements to disclose quantitative information about expected synergies in the year of acquisition (proposed paragraph B64(ea) of IFRS 3)

We suggest requiring entities to highlight any connections with other disclosures, such as those related to targets used for management compensation (such as share-based payment plans) or acquisition-related liabilities for contingent consideration (such as target-based earnouts).

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

We do not support the proposed reference to accounting policy as it may be understood to imply that the guidance in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* related to changes to accounting policies is applicable, which is generally not applied to disclosure requirements but only to presentation, recognition and measurement. Instead, we suggest the IASB requires specific disclosures (a description of the methodology, assumptions and estimates made) and requires the methodology to be consistently applied.

Proposed changes to IAS 36

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?

Proposals to reduce shielding

We welcome and support the proposed clarifications to the guidance in paragraph 80 of IAS 36.

Whilst we agree with the statement in paragraph BC196 that entities have different ways of organising their structures and internal operating systems, we consider that further illustrative guidance should be provided to support entities in understanding the meaning of the term 'financial information', which may vary depending on the nature of the synergies, and how this could affect the level at which goodwill is tested. Further research could be performed to identify those cases where additional guidance would be most effective. We refer in that respect to paragraph BC141 of current IAS 36 which states that the most frequent question from the field test of the previous revision to IAS 36 was "what level of management?" (e.g., Board of Directors, CEO, or segment management). One suggestion is to consider including the clarifications referred to in paragraph BC142 of existing IAS 36 in the BC to the ED (BC142 refers to discussions during a field visit where the Board provided 'clarifications' however the BC does not specify what these clarifications were). If no further guidance can be provided, then we suggest adding a rebuttable presumption that financial information that management uses to monitor the business associated with goodwill is available at a lower level than the operating segment, with additional disclosures if this is not the case.

We note that it would be useful to provide further illustrations on the meaning of "business associated with the goodwill" as the term 'business' could be misunderstood to refer to the concept of a business

as part of the accounting for the business combination. In particular, we suggest the IASB clarifies that impairment testing would be required at the level of the acquiree if the acquirer monitors the acquiree's profits for the purpose of contingent consideration.

Finally, we note that the proposals touch on the allocation of goodwill to a (group of) CGUs, without addressing the overall concern that IAS 36 does not provide any methods for allocating goodwill. This means that once the acquirer's CGUs, or groups of CGUs, that benefit from the synergies have been identified, the entity must use an appropriate methodology to allocate that goodwill. We note in particular that there may be a disconnect between how goodwill is allocated to CGUs expected to benefit from synergies and how the businesses associated with the goodwill are monitored. Further guidance would be helpful to reduce diversity in practice on how this allocation is performed.

Proposal to reduce management over-optimism

We support the proposed additional disclosure requirement. We acknowledge that the usefulness of this information will increase when impairment tests on goodwill are commonly performed on (groups of) CGUs instead of on the operating segment. The information value could be improved further by also identifying the basis for allocating goodwill to certain (groups of) CGUs within an operating segment.

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?

Constraint on cash flows

We support the proposal to remove the restriction in IAS 36 that prohibits companies from including some cash flows in estimating value in use (VIU), as it will make the forecasts more consistent with those used and approved by management, based on reasonable and supportable assumptions, without the need to make "artificial" adjustments. However, we are concerned that without additional guidance, the proposals could be interpreted in different ways resulting in significant diversity in practice.

We are concerned that the proposals will put significant pressure on the requirement in paragraph 44 to estimate the future cash flows of the asset in its current condition. We suggest including additional

guidance to clarify the expectations about which cash flows associated with the potential of the asset to be restructured, improved or enhanced are expected to be included or excluded as a result of the requirement in paragraph 44. In addition, the statement in paragraph BC213 could suggest that an analogy can be made to the requirement in IFRS 13 *Fair Value Measurement* to consider all uses that are physically possible, legally permissible and financially feasible (IFRS 13 paragraph 28) and, if not allowed, how the proposals differ from that requirement. Otherwise, we believe the statements in paragraph BC213 may cause confusion. For example, in the case of a warehouse, we believe the guidance is not clear on which alternatives should be considered: only those legally already permitted (such as adding additional office space), or those reasonably expected to be allowed (conversion to residential space) or should the physical form of the warehouse remain unchanged (only consider use of warehouse in different business activities)? We also note the current diversity in determining whether investments related to ESG-related transition plans are meant to be included in the future cash flows (i.e., whether the investments are part of the future cash outflows necessary to maintain the level of economic benefits expected to arise from the asset in its current condition).

We note that it is unclear whether it is the IASB's intention that the capital expenditure commonly included in management forecasts that relates to the replacement of existing assets and, hence, not to the potential of existing assets, should now be included in the future cash flows used in the value in use calculation.

We also suggest including in BC213 a discussion of the differences between fair value less costs of disposal (FVLCD) and VIU to ensure a clear understanding of the remaining differences between the two concepts.

We refer to the requirements in paragraph 134(d) of IAS 36. We note that, in practice, disclosures related to the budget are often limited to the discount rate, the growth rate and the period, and that the budget had been approved by management. As more weight is placed on the entity's budget as the source for determining the future cash flows, we suggest considering whether further guidance should be provided to ensure a proper understanding of the information expected to be disclosed in relation to the entity's budget. As an example, we refer to our publication [Good Group \(International\) Limited - December 2023](#), where gross margin, prices of raw materials and market share are also disclosed. The IASB could consider requiring disclosure when the key figures change significantly over the budget period (for example, a significant change in gross margin).

We suggest requiring additional disclosures on the extent to which the recoverable amount is based on restructurings, improvements or enhancements of the asset. In particular, whether a disclosure would be needed similar to paragraph 93(i) of IFRS 13 when the future use of a non-financial asset differs from its current use.

The proposed inclusion of future cash flows associated with the current potential of the asset to be restructured, improved or enhanced raises the question about the consequences in the case of increased uncertainty about the entity's ability to realise these cash flows (for example, due to unexpected developments in the environment in which the entity operates). We recommend addressing this as part of the guidance on internal indicators of impairment, for instance, by adding an example in paragraph 12(g). It would also be useful to clarify whether the fact that a future restructuring, enhancement, or improvement becomes reasonable and supportable could be considered a triggering event for a reversal of a previously recognised impairment loss, if allowed.

A restructuring may involve the movement of assets between CGUs or even operating segments (for example, when assets are moved to a different location). We suggest addressing how this could impact

the affected CGUs or operating segments when there is an indication that a single CGU or operating segment may be impaired, e.g., by requiring all affected CGUs or operating segments to be tested for impairment at the same time, when one of the affected CGUs or operating segments must be tested for impairment. Otherwise, depending on how the impairment tests are timed over the reporting period, some assets may be tested twice or not at all. In particular, where goodwill is involved, this may lead to counterintuitive outcomes.

We understand and appreciate the IASB's focus on the current scope of the project. We note that, typically, the terminal value is calculated by having regard to the forecast maintainable cash flows that are expected to be generated by the assets or CGUs in the final year of the explicit forecast period ('the terminal year'). Generally, this is the last year of the 5-year budget period. However, we note that when major restructurings are performed, the cash flows in the final year may not already (fully) reflect the effects of the restructuring. As an example, many climate-related objectives (e.g., reduction in CO2 emissions or carbon neutrality) are set for 2030, 6 years from 2024. It would, therefore, be helpful to reconsider the guidance related to the five-year period mentioned in paragraph 33(b) of IAS 36 to ensure this is not misunderstood to prohibit projecting cash flows beyond 5 years.

Finally, we suggest not removing the examples. We recommend updating Example 5 to illustrate the guidance in the proposed paragraph 44B on how the proposed inclusion of future cash flows related to a restructuring may be affected by the recognition of a provision for that same restructuring. We suggest updating Example 6 to address the impact of including restructuring cash flows when they were not included in the past (i.e., they were not yet reasonable and supportable).

Requirement to use pre-tax cash flows and pre-tax discount rates

We support the proposal to allow companies to use post-tax cash flows and post-tax discount rates to estimate VIU. We observe that the proposal effectively represents a disclosure simplification, because in practice entities often perform impairment tests based on post-tax discount rates and post-tax cash flows as a starting point under IAS 36 (as suggested by paragraph BCZ85 of IAS 36).

We observe that the complexity surrounding the use of post-tax cash flows and the interaction with income tax accounting (in particular, temporary differences, tax losses and other tax credits) will remain as complex as it is currently, e.g., in respect of intangible assets recognised in a purchase price allocation, where no tax amortisation benefit has been incorporated. In general, we suggest addressing the interaction between IAS 12 *Income Taxes* and IAS 36, for example clarifying in an illustrative example the consequence for future tax cash flows when a DTA is recognised, when none was recognised in the past.

We highlight the current variety in methods used to calculate post-tax cash flows, such as adjusting the future cash flows and the carrying amount of the asset/CGU with the related remaining tax depreciation, using a market participant perspective, applying a normative tax rate, assuming no temporary differences or assuming no carry forward tax losses. For example, if tax cash flows are determined on a notional basis (i.e. using the income tax rate applied to profit before taxes rather than reflecting the tax positions of the entity), simply including deferred tax balances in the carrying amount of the CGU creates a mismatch because deferred tax items are not measured on a discounted basis. Mandating an approach to determine tax effects would be the most logical way to address this diversity in practice (similar to the IASB's approach in paragraphs B141 and B142 of IFRS 18 *Presentation and Disclosure in Financial Statements*). However, if the IASB considers such a proposal beyond the scope of this project, we suggest requiring entities to explain to users their approach for

reflecting tax effects. In addition to a general objective, the following specific information may be useful to ensure users' understanding of how tax effects were reflected in the determination of the value in use calculation:

- Description of the approach applied.
- The key assumptions made in relation to the measurement of tax consequences of the future expected transactions (including the key countries, rates applied, specific uncertainties related to the applicable legislation, any expected changes to the legislation)
- Assumptions made in relation to the unwinding of deferred taxes and indications of any sensitivity to possible changes to the related cash flows or tax legislation.

We note, in particular, that we disagree with the statement in paragraph 219(d) that the proposal will better align the value in use calculation in IAS 36 with fair value in IFRS 13. Although we agree that the proposals remove a key difference between the value in use calculation in IAS 36 and fair value in IFRS 13, there may still be differences resulting from the fundamental difference in perspective between the entity and the market participant. We note that the entity-specific perspective increases users' needs for additional information to understand how this perspective differs from the market participant's perspective to ensure the assumptions and estimations are reasonable and supportable.

Proposed changes to IFRS X Subsidiaries without Public Accountability: Disclosures

Question 8 – Proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures
<p>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:</p> <ul style="list-style-type: none"> • 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). <p>See paragraphs BC252-BC256.</p> <p>Do you agree with the proposals? Why or why not?</p>

The disclosure of proforma information (such as the contribution had the acquisition date been at the beginning of the annual reporting period) generally requires more effort to prepare. Hence, we suggest considering this requirement separately from requirements to provide information that is already available to the entity. That is, we recommend the IASB assesses whether shareholders of non-listed subsidiaries would benefit sufficiently from receiving this information to outweigh the more significant cost of preparing this information.

Transition guidance for all proposed changes

Question 9 – Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 1400 of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard)

<p>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.</p>
--

<p>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.</p>
--

Amendments to IFRS 3

We agree with those IASB members who expressed the concern stated in BC259, and request that the IASB provides relief for first-time adopters from the proposed requirement for an entity to disclose information about the performance of a business combination (proposed paragraphs B67A-B67C of IFRS 3). We believe that the proposals should be applied prospectively to business combinations effected post transition date, similarly to those adopting the amendments at the effective date. We refer to the general practice to provide similar reliefs at initial adoption. In addition, we disagree with the argument that first-time adopters are expected to have enough time to plan their transition as this is very entity specific.

Amendments to IAS 36

In relation to the proposed changes to IAS 36, we note that the proposed guidance may result in:

- an impairment test being performed at a lower level; and/or
- the recoverable amount increasing as the result of the inclusion of cash flows to restructure, enhance or improve the asset.

Referring to paragraph BC261, we expect the transition impact to be greater than when IAS 36 was amended to end goodwill amortisation (goodwill being amortised, the risk of an impairment loss was low). In those cases further guidance may be needed to determine whether the initial application of the guidance is sufficient to trigger a new impairment test that may result in a significantly different outcome (recognition of new or reversal of past impairment losses) or whether the entity is required to reflect the impact for the first time when another reason triggers an impairment test or, where applicable, the annual mandatory impairment test is applied. We refer to our general comment in Question 7 on the interaction of the proposals with the guidance on indicators of impairment. We suggest the IASB also clarifies whether paragraph 87 of existing IAS 36 should be applied when there is a change to the allocation of goodwill.