

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom



DASB secretariat:
Mercuriusplein 3, 2132 HA Hoofddorp
Postbus 242, 2130 AE Hoofddorp

Tel: +31 (0)88 4960 391
secretariaat@rjnet.nl
www.rjnet.nl

Our ref: RJ-IASB 515 C
Direct dial: +31 (0)88 4960 391
Date: Hoofddorp, July 15 2024
Re: DASB Comment on Exposure Draft ED/2024/1 'Business Combinations — Disclosures, Goodwill and Impairment'

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to provide a response on the Exposure Draft ED/2024/1 'Business Combinations — Disclosures, Goodwill and Impairment' (the 'ED'), issued by the IASB in March 2024.

We generally agree with EFRAG's draft response¹ to the ED, however we have some additional remarks and observations. We summarize our main comments below (in the same order as the ED):

- Given the nature of the different users of financial statements, we are hesitant to include additional disclosure requirements in IFRS 3 for all entities. We are in favour of an approach similar to IFRS 8 and IAS 33 where certain disclosure requirements only apply to listed entities.
- We suggest to replace the term 'strategic' business combinations. Our suggestion is to use another term like 'key', 'major' or 'significant' business combinations to stress the fact that these business combinations are a subset of 'material' business combinations.
- We are not in favour of using operating profit or loss as a threshold as it may be a very volatile figure that often has no direct relation with the size of an entity. As an alternative, if the IASB decides to change the scope of the proposed disclosure requirements for strategic business combinations in line with the scope of IFRS 8 and IAS 33, we suggest to include a quantitative threshold based on market capitalisation.
- We are not in favour of the proposed disclosure requirements regarding quantitative information about expected synergies from combining operations of the acquiree and the acquirer. We would expect that these disclosure requirements are only relevant for strategic business combinations. Furthermore, we would strongly suggest to apply the management approach (as explained in IFRS 3.BC108 and further) to these disclosure requirements. Even

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so, such information continues to be highly judgmental (as based on management assessment only), but may still appear to be reliable information for users.

- We understand that the proposed amendments in IAS 36 are to reduce the risk of shielding, however, we are not convinced that the proposed adjustments will contribute significantly to reduce that risk. In general, the new requirements should be robust enough to enforce goodwill allocation at the lowest appropriate level. We believe that this is not yet sufficiently addressed in the proposed paragraphs in IAS 36.
- We suggest that the IASB clarifies what type of cash flows should or should not be included in the value in use calculated in accordance with the proposed amendments to IAS 36. This becomes relevant as there appear limited differences left between an impairment test based on fair value less costs of disposal (using a discounted cash flow method) and an impairment test based on value in use, other than the clear difference in perspective (the company specific perspective versus the market perspective).
- We are not yet convinced that most of the proposed disclosure requirements in IFRS 3 should be included in the financial statements. We believe that the management commentary is a more suitable document for this information. Nevertheless, we have responded to the proposed amendments in IFRS Accounting Standards.

Our detailed feedback is provided in the Appendix.

If you have any questions, please do not hesitate to contact me.

Yours sincerely,

drs. G.M. van Santen RA
Chairman Dutch Accounting Standards Board

Appendix 1: Responses to Exposure Draft Questions

Appendix 2: DASB comment letter on Draft Comment letter EFRAG

Appendix 1: Responses to Exposure Draft Questions

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?

In general, the IASB is hesitant to include additional disclosure requirements in IFRS 3 for all entities with strategic business combinations. We are in favour of an approach similar to IFRS 8 and IAS 33 where certain disclosure requirements only apply to listed entities. The reason is that we expect that the most important users of the financial statements of non-listed entities will not need the financial statements to receive information about the performance of business combinations as those users will have other sources of information.

Furthermore, we expect that it will be difficult for many entities to provide the additional disclosures, because the required information is usually not readily available in practice. As a result, we expect that many entities will only provide "boilerplate" disclosures which do not result in better information about the performance of business combinations.

We acknowledge that most entities will prepare some information on key objectives and targets during the process of acquiring an entity, however this information is usually prepared for internal purposes only and is therefore expected not to be a reasonable basis for preparing the proposed disclosures.

We also refer to the section ‘Location of information’ after question 9.

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?

In general, we suggest to replace the term ‘strategic’ business combinations’. Based on our experience, most business combinations are entered into for strategic reasons. This can for example be derived from the proposed disclosure requirement in paragraph B64(d). This paragraph requires disclosure of the strategic rationale for all material business combinations. To our opinion, the term ‘strategic’ business combinations’ could be misleading then. Our suggestion is to use another term like ‘key’, ‘major’ or ‘significant’ business combinations to stress the fact that the implied business combinations are a subset of ‘material’ business combinations and to align better with the description of these business combinations in IFRS 3.BC54-55.

We agree with the proposed threshold approach, as we believe that this is the most practical approach. The concepts in the thresholds are based on existing approaches in IFRS Accounting Standards, and we do not expect difficulties in applying most of these concepts in practice. However, we consider operating profit or loss to be a very volatile figure to measure the size of an entity and it can even be close to zero. As a result, there is often no direct relationship between operating profit and loss and the size of an entity. Therefore, we are not in favour of using operating profit or loss as a threshold and we suggest to delete this threshold. As an alternative, if the IASB decides to change the scope of the proposed disclosure requirements for strategic business

combinations in line with the scope of IFRS 8 and IAS 33, we suggest to include a quantitative threshold based on market capitalisation.

Furthermore, we would welcome additional guidance on applying the qualitative threshold as this threshold requires a high level of judgement (e.g. in the form of illustrative examples).

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

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

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

- (a) Do you think the proposed exemption can be applied in the appropriate circumstances? If not, please explain why not and suggest how the IASB could amend the proposed principle or application guidance to better address these concerns.
- (b) Do you think the proposed application guidance would help restrict the application of the exemption to only the appropriate circumstances? If not, please explain what application guidance you would suggest to achieve that aim.

We expect that it would be helpful if the IASB provides some examples of situations that lead to the expectation that disclosing information would 'prejudice seriously the achievement of any of the acquirer's acquisition-date key objectives for the business combination'. Without any further guidance or without the addition that the exemption can only be applied in (extremely) rare cases, in line with the principle of IAS 37.92, we expect that entities will use the exemption more often than intended by the IASB. As an alternative, the IASB could provide illustrative examples of rare cases that justify using the exemption.

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?

As mentioned in our response to Question 1, we would be in favour of an approach similar to IFRS 8 and IAS 33 where certain disclosure requirements only apply to listed entities. In line with that, we are in favour of aligning the level of management with IFRS 8. We believe that the operating results of a business combination are more often reviewed at operating segment level and therefore we consider the term 'chief operation decision maker' more appropriate.

If the IASB retains the management approach based on the concept of 'key management', we suggest to include more guidance on how to apply this concept in practice in the scope of IFRS 3. We question whether it refers to all individuals defined together as 'key management personnel', or for example also to an individual that is part of key management personnel? It would be useful to clarify this.

Regarding the other questions under (b), the DASB generally agrees with EFRAG's response to the ED.

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?

The DASB generally agrees with EFRAG's response to the ED. We support most of the proposed amendments, but not with the proposal to specify that the basis of preparation of the information on the contribution of the acquired business is an accounting policy. By indicating that it is an accounting policy, the information is in scope of IAS 8. We do not consider this appropriate as it is

more an explanation of how the information is gathered in practice. We agree with EFRAG's recommendation to instead provide an explanation of the basis used to prepare the information.

We do not support the proposals regarding the disclosure of quantitative information about expected synergies from combining operations of the acquiree and the acquirer in the year of acquisition. We would expect that these disclosure requirements are only relevant for strategic business combinations. Furthermore, we would strongly suggest to apply the management approach to these disclosure requirements. The reason is that we expect that most entities will not have this information readily available. Without the management approach, entities will have to perform these calculations only to meet the proposed disclosure requirements and this will probably not result in valuable information for users. But even so, such information continues to be highly judgmental (as based on management assessment only) but may still appear to be reliable information for users.

Besides that, we believe that it will be very difficult to audit such information.

As a result of the comments above, we suggest that the IASB changes the quantitative disclosure requirements into qualitative disclosure requirements. We expect that more entities are able to meet qualitative disclosure requirements and this will result in more relevant information.

NB We also refer to the section 'Location of information' after question 9.

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?

In general, we are of the opinion that there is still a strong link with IFRS 8 which does not encourage entities to allocate goodwill at a lower level than operating segment level. We understand that the proposed amendments in IAS 36 are to reduce the risk of shielding, however, we are not convinced that the proposed adjustments will contribute significantly to reduce that risk. In general, the new requirements should be robust enough to enforce goodwill allocation at the lowest appropriate level. We believe that this is not yet sufficiently addressed in the proposed paragraphs in IAS 36.

Besides that, we agree with EFRAG's request for further disclosure requirements when goodwill is being reallocated in subsequent periods. Especially in situations of reallocations we consider a high risk of shielding. Therefore, additional qualitative disclosures are required in order to explain the rationale of the reallocation and the impact on the impairment testing.

Regarding the proposals to reduce management over-optimism we agree with EFRAG's response to the ED.

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?

We agree with the proposal to no longer prohibit the inclusions of 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. However, we believe that the current wording in the ED is too generic. We are of the opinion that more guidance is needed to explain what type of cash flows should or should not be included and the conditions that should be met before cash flows could be included (e.g. sufficiently specific, included in internal forecasts, discussed with governance bodies etc.). As an example, we question whether and under which conditions the effects of a planned business combination or an asset acquisition should be included in the value of use calculation.

The proposed amendments to IAS 36 result in that there appear limited differences left between an impairment test based on fair value less costs of disposal (using a discounted cash flow method) and an impairment test based on value in use other than the clear difference in perspective (the company specific perspective versus the market perspective). As these remaining differences need to be understood from a user's perspective, such differences should be further clarified in IAS 36.

Furthermore, we agree with EFRAG’s request for additional disclosures on the extent to which the estimated value in use is influenced by the inclusion of uncommitted future restructurings and asset enhancements, where such an inclusion represent a significant amount of the calculated value in use. Although paragraph 122 of IAS 1 (to be replaced with paragraph 27G of IAS 8) sufficiently addresses the disclosure of significant judgements made in the process of applying the entity’s accounting policies, we consider it useful to add specific qualitative disclosure requirements to IAS 36. However, we are hesitant to include quantitative disclosure requirements regarding the influence of uncommitted future restructurings and asset enhancements because entities would need to prepare calculations with and without these uncommitted future restructurings and asset enhancements.

We agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. However, it is our observation that currently different post-tax calculations exist in practice and that there are some conceptual challenges when calculating post-tax cash flows and discount rates (e.g. regarding the treatment of non-recognised unused tax losses). Therefore, we would recommend the IASB to implement additional guidance for preparing post-tax calculations to improve comparability and consistency.

Question 8—Proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures

The IASB proposes to amend IFRS 19 *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?

As expressed in our response in question 1, for the proposed disclosure requirements for strategic business combinations, we are in favour of an approach similar to IFRS 8 and IAS 33 where certain disclosure requirements only apply to listed entities. When that approach will be applied, this would have an impact on the proposed disclosure requirements in IFRS 19 as well. Furthermore, we are not in favour of including the disclosure requirements with respect to expected synergies in IFRS 19 as we do not expect that this will have any additional value to the main users of the financial statements of subsidiaries without public accountability.

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.

The DASB generally agrees with EFRAG's response to the ED. In addition to the response of EFRAG, we support the possibility to early adopt only the proposed amendments to one standard (e.g. IAS 36) and wait with the adoption of the proposed amendments to the other standards.

Location of information

Although we understand the considerations of the IASB and EFRAG regarding the forward-looking information as required in IFRS 3.B64(ea), we are not yet convinced that this information should be included in the financial statements. In general, information with a forward-looking nature is included in the outlook paragraph of the management commentary. Apart from the forward-looking information we also doubt whether the proposed disclosure requirements with respect to key objectives and targets (IFRS 3.B67A) should be included in the financial statements. This information relates to the policy choices of the entity and that information is usually not included in the financial statements, but in the management commentary.

However, we understand that the IASB wants to create a global level playing field by including these disclosure requirements in IFRS Accounting Standards. Nevertheless, we would suggest to discuss this topic in a broader context to decide what type of information should or should not be included in the financial statements.

Appendix 2: DASB Comment letter on Draft Comment letter EFRAG



EFRAG

Attn. EFRAG Technical Expert Group
35 Square de Meeûs
B-1000 Brussels
Belgique

DASB secretariat:
Mercuriusplein 3, 2132 HA Hoofddorp
Postbus 242, 2130 AE Hoofddorp

Tel: +31 (0)88 4960 391
secretariaat@rjnet.nl
www.rjnet.nl

Our ref: RJ-EFRAG 630-E
Direct dial: +31 (0)88 4960391
Date: Hoofddorp, June 28th 2024
Re: DASB Commentletter on Draft Comment Letter on Exposure Draft ED/2024/1 'Business Combinations — Disclosures, Goodwill and Impairment'

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to provide a response to the EFRAG Draft Comment Letter on the Exposure Draft ED/2024/1 'Business Combinations — Disclosures, Goodwill and Impairment' (the 'ED'), issued by the IASB in March 2024.

We generally agree with EFRAG's draft response to the ED, however we have some additional remarks and observations. We summarize our main comments below (in the same order as the ED):

- Given the nature of the different users of financial statements, we are hesitant to include additional disclosure requirements in IFRS 3 for all entities. We are in favour of an approach similar to IFRS 8 and IAS 33 where certain disclosure requirements only apply to listed entities.
- We suggest to replace the term 'strategic' business combinations. Our suggestion is to use another term like 'key', 'major' or 'significant' business combinations to stress the fact that these business combinations are a subset of 'material' business combinations.
- We are not in favour of using operating profit or loss as a threshold as it may be a very volatile figure that often has no direct relation with the size of an entity. As an alternative, if the IASB decides to change the scope of the proposed disclosure requirements for strategic business combinations in line with the scope of IFRS 8 and IAS 33, we suggest to include a quantitative threshold based on market capitalisation.
- We are not in favour of the proposed disclosure requirements regarding quantitative information about expected synergies from combining operations of the acquiree and the acquirer. We would expect that these disclosure requirements are only relevant for strategic business combinations. Furthermore, we would strongly suggest to apply the management approach (as explained in IFRS 3.BC108 and further) to these disclosure requirements. Even so, such information continues to be highly judgmental (as based on management assessment only), but may still appear to be reliable information for users.

- We understand that the proposed amendments in IAS 36 are to reduce the risk of shielding, however, we are not convinced that the proposed adjustments will contribute significantly to reduce that risk. In general, the new requirements should be robust enough to enforce goodwill allocation at the lowest appropriate level. We believe that this is not yet sufficiently addressed in the proposed paragraphs in IAS 36.
- We suggest that the IASB clarifies what type of cash flows should or should not be included in the value in use calculated in accordance with the proposed amendments to IAS 36. This becomes relevant as there appear limited differences left between an impairment test based on fair value less costs of disposal (using a discounted cash flow method) and an impairment test based on value in use, other than the clear difference in perspective (the company specific perspective versus the market perspective).
- We are not yet convinced that most of the proposed disclosure requirements in IFRS 3 should be included in the financial statements. We believe that the management commentary is a more suitable document for this information. Nevertheless, we have responded to the proposed amendments in IFRS Accounting Standards.

Our detailed feedback is provided in the Appendix.

If you have any questions, please do not hesitate to contact me.

Yours sincerely,

drs. G.M. van Santen RA
Chairman Dutch Accounting Standards Board

Appendix: Views on EFRAG Draft Comment Letter

Appendix – Views on EFRAG Draft Comment Letter

Question 1 – Disclosures: Performance of a business combination (proposed paragraphs B67A-B67G of IFRS 3)

In general, the DASB is hesitant to include additional disclosure requirements in IFRS 3 for all entities with strategic business combinations. We are in favour of an approach similar to IFRS 8 and IAS 33 where certain disclosure requirements only apply to listed entities. The reason is that we expect that the most important users of the financial statements of non-listed entities will not need the financial statements to receive information about the performance of business combinations as those users will have other sources of information.

Furthermore, we expect that it will be difficult for many entities to provide the additional disclosures, because the required information is usually not readily available in practice. As a result, we expect that many entities will only provide “boilerplate” disclosures which do not result in better information about the performance of business combinations.

We acknowledge that most entities will prepare some information on key objectives and targets during the process of acquiring an entity, however this information is usually prepared for internal purposes only and is therefore expected not to be a reasonable basis for preparing the proposed disclosures.

EFRAG – Questions to constituents

39 Do you consider there are cases that do not fall within the scope of the exemption where providing the proposed performance information can be so commercially sensitive that would pose a serious concern if disclosed in the financial statements? If so, please provide examples of these cases and explain why you would be unable to use the exemption.

No; in fact we expect that entities will use the exemption more often than intended by the IASB. We refer to our response in question 3.

40 Do you consider there could be business combinations for which providing integrated performance information will be useful to users of financial statements? If not, please provide examples of such cases and what specific changes to the proposed disclosures you suggest.

The DASB is of the opinion that integrated performance information will in theory be useful to users of financial statements, especially when the acquisition was done in previous years and business have been integrated since then. However, we have serious doubts whether this information will be readily available in practice for all entities with strategic business combinations.

41 Do you consider that providing information on actual performance per paragraphs B67A (b) (i) and (ii) will be useful in all cases? If not, please provide examples when either of these proposed disclosures would not be useful and why.

No; we are of the opinion that the disclosure requirements are only relevant for listed entities. We also refer to our response above.

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

The DASB generally agrees with EFRAG's response to the ED. In addition to EFRAG's response we suggest to replace the term 'strategic' business combinations. Based on our experience, most business combinations are entered into for strategic reasons. This can for example be derived from the proposed disclosure requirement in paragraph B64(d). This paragraph requires disclosure of the strategic rationale for all material business combinations. To our opinion, the term 'strategic' business combinations could be misleading then. Our suggestion is to use another term like 'key', 'major' or 'significant' business combinations to stress the fact that the implied business combinations are a subset of 'material' business combinations and to align better with the description of these business combinations in IFRS 3.BC54-55.

Furthermore, we would welcome additional guidance on applying the qualitative threshold as this threshold requires a high level of judgement (e.g. in the form of illustrative examples).

EFRAG – Questions to constituents

68 Do you expect to have difficulties in applying either the proposed quantitative or the qualitative thresholds? If so, please explain why.

As the concepts in the thresholds are based on existing approaches in IFRS Accounting Standards, we do not expect difficulties in applying most of these concepts in practice. We understand EFRAG's recommendation to include a caveat when meeting the qualitative threshold for immaterial business combinations. However, we are of the opinion that the word 'major' in the qualitative threshold refers to 'line of business' and to 'geographical area of operations'. Nevertheless, it could be useful to clarify this in the standard.

69 Have you identified cases where applying an open-list approach would be more appropriate than the proposed closed-list approach? If so, please explain.

No, we believe that the proposed closed-list approach is the most practical approach.

70 Do you consider there could be cases where the 10% measure proposed for the quantitative thresholds (based on the acquirer's consolidated operating profit, revenue and total assets) would not be appropriate, as it would still capture small business combinations (if 10% is too low) or omit to capture "strategic" acquisitions (if 10% is too high)?, If so, in which cases and which other measure would you propose?

We consider operating profit or loss to be a very volatile figure to measure the size of an entity and it can even be close to zero. As a result, there is often no direct relationship between operating profit and loss and the size of an entity. Therefore, we are not in favour of using operating profit or loss as a threshold and we suggest to delete this threshold.

As an alternative, if the IASB decides to change the scope of the proposed disclosure requirements for strategic business combinations in line with the scope of IFRS 8 and IAS 33, we suggest to include a quantitative threshold based on market capitalisation.

71 Do you consider it useful to have guidance on assessing whether a series of business combinations could in aggregate be strategic?

Yes, we consider that useful. In our experience, a series of business combinations takes multiple years to complete and we have difficulty to understand how paragraph BC73 should be applied in practice then. Especially for entities with a 'buy-and-build' strategy, the proposed guidance seems not clear enough. For example, with the current guidance we have difficulty to determine as from which moment a series of business combinations becomes strategic.

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

We expect that it would be helpful if the IASB provides some examples of situations that lead to the expectation that disclosing information would 'prejudice seriously the achievement of any of the acquirer's acquisition-date key objectives for the business combination'. Without any further guidance or without the addition that the exemption can only be applied in (extremely) rare cases, in line with the principle of IAS 37.92, we expect that entities will use the exemption more often than intended by the IASB. As an alternative, the IASB could provide illustrative examples of rare cases that justify using the exemption.

EFRAG – Questions to constituents

92 Do you consider that the IASB should suggest further application guidance and/or include illustrative examples to clarify the meaning of the "specific circumstances" that the exemption would be applied? If so, what application guidance or illustrative examples would you suggest?

Yes; we refer to our response above.

Question 4 – Disclosures: Identifying information to be disclosed (proposed paragraphs B67A-B67B of IFRS 3)

The DASB generally agrees with EFRAG's response to the ED. However, as mentioned in our response to Question 1, we would be in favour of an approach similar to IFRS 8 and IAS 33 where certain disclosure requirements only apply to listed entities. In line with that, we are in favour of aligning the level of management with IFRS 8. We believe that the operating results of a business combination are more often reviewed at operating segment level and therefore we consider the term 'chief operation decision maker' more appropriate.

If the IASB retains the management approach based on the concept of 'key management', we suggest to include more guidance on how to apply this concept in practice in the scope of IFRS 3. We question whether it refers to all individuals defined together as 'key management personnel', or for example also to an individual that is part of key management personnel? It would be useful to clarify this.

EFRAG – Questions to constituents

115 Do you consider the proposed level of KMP to be appropriate? If not, which level would you consider to be appropriate and why?

No; we refer to our response above.

Question 5 – Disclosures: Other proposals

The DASB generally agrees with EFRAG’s response to the ED, with the exception of the response regarding the disclosure of quantitative information about expected synergies from combining operations of the acquiree and the acquirer in the year of acquisition. We would expect that these disclosure requirements are only relevant for strategic business combinations. Furthermore, we would strongly suggest to apply the management approach to these disclosure requirements. The reason is that we expect that most entities will not have this information readily available. Without the management approach, entities will have to perform these calculations only to meet the proposed disclosure requirements and this will probably not result in valuable information for users. But even so, such information continues to be highly judgmental (as based on management assessment only) but may still appear to be reliable information for users.

Besides that, we believe that it will be very difficult to audit such information.

As a result of the comments above, we suggest that the IASB changes the quantitative disclosure requirements into qualitative disclosure requirements. We expect that more entities are able to meet qualitative disclosure requirements and this will result in more relevant information.

EFRAG – Questions to constituents

155 Do you expect to have difficulties in providing quantitative information on expected synergies in the year of acquisition? If so, please explain why.

Yes; we refer to our response above.

156 Do you consider the IASB should define “synergies” or provide additional guidance on the types of synergies for which entities are expected to provide quantitative information?

We agree with EFRAG’s response to the ED. It could be useful to define “synergies” as this term is not widespread used in other IFRS Accounting Standards.

157 Do you consider that the financial statements to be the right location to provide quantitative information on expected synergies? If not, please explain why and where the information should be provided.

We do not consider this to be the right location given the high degree of subjectivity of this information and the strong forward-looking element. We believe that the management commentary would be a more appropriate location for this information. We also refer to our response regarding ‘Other matters’ after question 9.

163 Do you agree with the IASB’s proposal to specify that the basis of preparation of the information on the contribution of the acquired business is an accounting policy? Please explain.

We agree with EFRAG’s response that this is not an accounting policy and with EFRAG’s recommendation to instead provide an explanation of the basis used to prepare the information. By indicating that it is an accounting policy, the information is in scope of IAS 8. We do not consider this appropriate as it is more an explanation of how the information is gathered in practice.

164 Have you identified any difficulties with providing/auditing the information in the current requirement in paragraph B64(q) of IFRS 3? If so, please explain and provide alternatives that the IASB should consider?

We have identified some difficulties, especially as a result of timing constraints and inconsistent data, e.g. when some data (prior to acquisition) is not based on IFRS Accounting Standards. Furthermore, it is unclear how to treat the effects of the purchase price allocation for the period before the business combination.

Question 6 – Changes to the impairment test (paragraphs 80-81, 83, 85 and 134(a) of IAS 36

The DASB generally agrees with EFRAG’s response to the ED. However, we are of the opinion that there is still a strong link with IFRS 8 which does not encourage entities to allocate goodwill at a lower level than operating segment level. We understand that the proposed amendments in IAS 36 are to reduce the risk of shielding, however, we are not convinced that the proposed adjustments will contribute significantly to reduce that risk. In general, the new requirements should be robust enough to enforce goodwill allocation at the lowest appropriate level. We believe that this is not yet sufficiently addressed in the proposed paragraphs in IAS 36.

EFRAG – Questions to constituents

186 Do you agree with EFRAG’s preliminary view that the last sentence of proposed paragraph 80A(b) in IAS 36 raises concerns around ambiguity and if so, do you agree with EFRAG’s recommendation to delete the last sentence of that paragraph? If you do not agree, please explain why?

Yes, we agree with EFRAG’s preliminary view. Current wording seems to indicate that there is room to allocate goodwill to a higher level than required by paragraph 80 of IAS 36. We also refer to our response above.

187 Do you agree with the request for further disclosure requirements when goodwill is being reallocated in subsequent periods? Why, or why not?

Yes, especially in situations of reallocations we consider a high risk of shielding. Therefore, additional qualitative disclosures are required in order to explain the rationale of the reallocation and the impact on the impairment testing.

188 In the interest of ensuring that goodwill is allocated at the lowest level possible, would you consider important for the IASB to provide guidance where the level of allocation is considered too high, and thus unacceptable, regardless of whether that level represents a business unit that has benefited from the acquisition’s synergies?

We are of the opinion that such guidance will be very difficult to develop and we expect that the benefits of such guidance would not outweigh the costs to develop it. We expect that it will be very difficult to develop guidance that is applicable to all entities and that is specific enough to ensure that the level of allocation is never too high.

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 DASB generally agrees with EFRAG's response to the ED. We also agree with the proposal to no longer prohibit the inclusions of 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. However, we believe that the current wording in the ED is too generic. We are of the opinion that more guidance is needed to explain what type of cash flows should or should not be included and the conditions that should be met before cash flows could be included (e.g. sufficiently specific, included in internal forecasts, discussed with governance bodies etc.). As an example, we question whether and under which conditions the effects of a planned business combination or an asset acquisition should be included in the value of use calculation. Finally, the proposed amendments to IAS 36 result in that there appear limited differences left between an impairment test based on fair value less costs of disposal (using a discounted cash flow method) and an impairment test based on value in use other than the clear difference in perspective (the company specific perspective versus the market perspective). As these remaining differences need to be understood from a user's perspective, such differences should be further clarified in IAS 36.

EFRAG – Questions to constituents

203 Do you agree with the EFRAG feedback in paragraph 197 and 202 to the questions raised by the IASB?

Yes.

204 Do you agree with the recommendations related to (a) the first sentence in paragraph 44A(a) of the ED, and (b) the need for additional guidance on the boundary of an asset? Why or why not?

Yes, we believe that additional guidance is needed. We further refer to our response above.

205 Do you agree with the requested additional disclosures on the extent to which the estimated value in use is influenced by the inclusion of uncommitted future restructurings and asset enhancements, where such an inclusion represent a significant amount of the calculated value in use? Why or why not?

Although paragraph 122 of IAS 1 (to be replaced with paragraph 27G of IAS 8) sufficiently addresses the disclosure of significant judgements made in the process of applying the entity's accounting policies, we consider it useful to add specific qualitative disclosure requirements to IAS 36. However, we are hesitant to include quantitative disclosure requirements regarding the influence of uncommitted future restructurings and asset enhancements because entities would need to prepare calculations with and without these uncommitted future restructurings and asset enhancements.

206 Do you see a need for additional guidance in how to treat taxes, including deferred taxes, in the calculation of value in use? If so, what kind of guidance is needed?

It is our observation that currently different post-tax calculations exist in practice and that there are some conceptual challenges when calculating post-tax cash flows and discount rates (e.g. regarding the treatment of non-recognised unused tax losses). Therefore, we would recommend the IASB to implement additional guidance for preparing post-tax calculations to improve comparability and consistency.

Question 8 – Proposed amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures

The DASB generally agrees with EFRAG's response to the ED, but taking into account our considerations expressed in the response to questions 1-7 (as far as applicable to the proposed disclosure requirements of IFRS 19). As expressed in our response in question 1, for the proposed disclosure requirements for strategic business combinations, we are in favour of an approach similar to IFRS 8 and IAS 33 where certain disclosure requirements only apply to listed entities. When that approach will be applied, this would have an impact on the proposed disclosure requirements in IFRS 19 as well. Furthermore, we are not in favour of including the disclosure requirements with respect to expected synergies in IFRS 19 as we do not expect that this will have any additional value to the main users of the financial statements of subsidiaries without public accountability.

EFRAG – Questions to constituents

216 Do you agree with the IASB's proposed disclosure requirements for eligible subsidiaries applying the Subsidiaries Standard? If not, please refer to the specific disclosures and describe your concerns.

We do not agree with the proposed disclosure requirements based on IFRS 3. We refer to our response above.

Question 9 – Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O of IAS 36 and proposed paragraph B2 of IFRS 19)

The DASB generally agrees with EFRAG's response to the ED. In addition to the response of EGRAF, we support the possibility to early adopt only the proposed amendments to one standard (e.g. IAS 36) and wait with the adoption of the proposed amendments to the other standards.

Other matters – Location and auditability of information

Although we understand the considerations of the IASB and EFRAG regarding the forward-looking information, we are not yet convinced that this information should be included in the financial statements. In general, information with a forward-looking nature is included in the outlook paragraph of the management commentary. Apart from the forward-looking information we also doubt whether the proposed disclosure requirements with respect to key objectives and targets should be included in the financial statements. This information relates to the policy choices of the entity and that information is usually not included in the financial statements, but in the management commentary.

However, we understand that the IASB wants to create a global level playing field by including these disclosure requirements in IFRS Accounting Standards. Nevertheless, we would suggest to discuss this topic in a broader context to decide what type of information should or should not be included in the financial statements.

EFRAG – Questions to constituents

243 Do you consider there could be aspects of the proposed disclosures on performance information and expected synergies for business combinations (Question 1 and Question

5 of the ED) that might pose a serious concern if disclosed in the financial statements and why? If yes, please explain (i) why you would not be able to apply the proposed exemption (Question 3 of the ED) and (ii) where you suggest the information should be provided and why?

Yes; we refer to our response above.

244 Do you consider that entities (other than subsidiaries) without public accountability should be granted relief from the proposed new package of disclosure requirements? If so, please explain which disclosures and why.

We refer to our response to question 1. We are in favour of an approach similar to IFRS 8 and IAS 33 where certain disclosure requirements only apply to listed entities.