KPMG

Business combinations and impairment

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Global IFRS Institute | Business combinations

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Proposals could enhance business combinations disclosures and simplify impairment testing

Highlights

- **What are the proposed disclosures for business combinations?**
- **What are the proposed changes to the impairment test?**
- **Have your say – the comment deadline is 15 July 2024**

Investors are increasingly seeking improved information on acquisitions – referred to as business combinations under IFRS® Accounting Standards. This includes information on the success of the deal and whether the price paid was reasonable. The International Accounting Standards Board (IASB) proposes to enhance disclosures for business combinations in its exposure draft *Business Combinations – Disclosures, Goodwill and Impairment*.

The IASB also proposes to maintain the impairment-only model for goodwill, with some simplifications and clarifications made to the impairment test.

What are the proposed disclosures for business combinations?

The proposed amendments to disclosures required under IFRS 3 *Business Combinations* are summarised below, with more extensive requirements for 'strategic' business combinations.

Expected synergies – required for all business combinations

In the year of acquisition, a company would be required to disclose both quantitative and qualitative information about expected synergies. This includes a breakdown of the estimated amounts of expected synergies by category – e.g. total revenue synergies or total cost synergies – as well as information on the benefits' expected start date and their duration.

Key objectives and subsequent performance against them – required for strategic business combinations only

A 'strategic' business combination is one where not meeting the specific acquisition-date key objectives would put the acquiring company at serious risk of not achieving its overall business strategy. To identify such business combinations, the IASB proposes using a closed list of primarily quantitative tests – e.g. if the acquiree represents more than 10 percent of the company's operating profit, revenues or assets – together with qualitative tests.

"These proposals represent a significant step forward in improving the transparency and usefulness of information about the subsequent performance of business combinations. Additionally, the proposed changes to simplify the impairment test are a welcome development."

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For each strategic business combination, companies would be required to disclose certain information that is monitored by key management personnel.

- *In the acquisition year*: The acquisition-date key objectives and related targets for the business combination.
- *In the acquisition year and each subsequent period*: The progress towards meeting those acquisition-date objectives and targets, including actual performance and a statement on whether the objectives and targets are being met.

Disclosures in subsequent periods would generally be required for as long as key management personnel continue to review progress against the acquisition-date objectives and targets of the business combination.

Exemption from disclosing information

The IASB is proposing an exemption from some of the new disclosure requirements in specific limited circumstances. This exemption applies if disclosure could seriously affect a company's ability to meet the key objectives of the business combination.

All new requirements would apply prospectively – i.e. for business combinations that occur after the amendment's effective date.

What are the proposed changes to the impairment test?

The IASB proposes to retain the impairment-only approach for goodwill rather than reintroduce amortisation. It also proposes the following key changes to the value-in-use testing requirements in IAS 36 *Impairment of Assets* to simplify and clarify the impairment test.

- To retain the requirement to estimate future cash flows from an asset or cash-generating unit (CGU) in its current condition, but to remove constraints on reflecting any estimated future cash flows expected to arise from:
  - future uncommitted restructuring; and
  - improvement or enhancement of an asset or CGU's performance.
- To remove the requirement to use pre-tax cash flows and discount rates. Instead, a company would be required to disclose the discount rate(s) used and whether it (they) is (are) pre-tax or post-tax.
- To clarify the guidance on how to allocate goodwill to CGUs or a group of CGUs for impairment testing.

A company would apply these amendments prospectively.

Have your say

The IASB has requested comments by 15 July 2024. Take this opportunity to read and comment on the proposals.

For further information on the proposals, speak to your KPMG contact.

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