



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



Dr Andreas Barckow, Chairman,
International Accounting Standards Board,
30 Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD-United Kingdom

12 July 2024

Dear Dr Barckow,

Ref: Business Combinations—Disclosures, Goodwill and Impairment

We welcome the opportunity to comment upon the proposals contained in the Exposure Draft « Business Combinations-Disclosures, Goodwill and Impairment (the ED).

We understand the reasons behind the IASB's decision to take on this project and recognise that there is a need for more information in the notes to the financial statements to allow users to understand the elements underlying capitalised goodwill and their potential impact on the reporting entity's future results. We also understand that users require more information about the objectives pursued by management when the latter commit significant resources to the acquisition of businesses. Finally, we welcome the efforts made by the Board to provide solutions to the concerns raised by preparers by creating an exemption from disclosing sensitive information and by limiting some of the requirements to strategic business combinations.

There remain, however, some aspects of the proposals contained in the ED which we think ought to be further developed to provide the following:

- A clearer distinction between what should be provided to explain and justify the financial statements along the lines of the principles of IFRS 18 and what falls under a broader interpretation of stewardship but does not, in our view, belong in the financial statements.

A definition of strategic business combinations based more on a principle such as that provided in the Basis for Conclusions (and used by the Board in many presentations of the proposals); this principle could be illustrated by examples of criteria that could be applied. We believe that

such principle-based approach is more in line with the general approach of IFRS and will avoid the difficult exercise of laying down rules that would apply to all jurisdictions.

- An exemption from disclosure of sensitive information not centred solely on the non-achievement of key objectives but more broadly on the sensitivity of information in general, while nonetheless maintaining a reasonable basis of principle in order to limit the use of such an exemption.

If you require any further information about our comments on the ED, please do not hesitate to contact us.

Yours sincerely,

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APPENDIX

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

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).*

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.

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?

We agree that when significant amounts are invested in the acquisition of strategic businesses, management must explain the reasons for this and the initial objectives of the acquisition. We also agree that the interested parties can expect that the progress towards the achievement of these objectives be monitored and that they will be kept informed of any major departure from the acquisition's original plan, especially as such a variance might have a significant impact on the future profitability of the group.

Since these objectives are reflected in the price paid for the acquisition (and thus in the elements recognised on the balance sheet), we agree that information about the objectives should be given in the notes in the year of the acquisition (with the proviso, of course, that sensitive information is not divulged).

In this respect, the information already required in paragraphs B64(d) and (e) of IFRS 3 could have been usefully built upon and reinforced with some specific proposals included in the ED, along with concrete examples of what type of information is expected. Doing so would have prevented the provision of unhelpful « boiler-plate » information that can sometimes be found and would also have avoided developing a completely revised set of information to disclose.

In respect of the proposals about the monitoring of the achievement of the key objectives over time, we consider that this goes beyond the scope of what should be included in financial statements up to the moment when the non-achievement of such objectives could have a major negative effect on the group's profitability. Although the notion of stewardship is central to the purpose of financial reporting as defined in the Conceptual Framework, it seems to us that the IASB has a broader reading of this aspect than that which is described in paragraphs 1.22 and 1.23 of the Conceptual Framework. The financial statements explain the entity's performance during the reporting period, and in doing so provide information about the potential future performance based on the assets and liabilities recognised in the balance sheet. However, it is not in the financial statements that entities analyse the variances between the actual and expected performance. When entities provide such an analysis, it is instead in the management report that it is made. Furthermore, such a report generally analyses the overall performance of the group, sometimes on the basis of segments but very rarely focusing on a single transaction. At last, disclosing such information in the notes may create an expectation gap whereby users might assume that, because

this information is included in the financial statements, there is a level of certainty and achievability of the targets (for example, because they would be subject to audit).»

We think that a reasonable approach would be

- To disclose in the notes the key objectives of the acquisition (not necessarily on a quantitative basis)
- In respect of the following years, to provide a qualitative indication about how these objectives are monitored, where applicable, and whether the entity is expecting any variance of a sort which might have significant effects on future cash flows. This will provide useful information, while not imposing quantitative disclosure as seems likely to be the case in the IASB's proposals, given the examples presented.
- Not requiring such information in interim financial statements since it would be irrelevant to give half-yearly indications, particularly if the objectives are annual

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

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?

We are in complete agreement with the proposal to restrict certain disclosures to strategic business combinations as this will allow the disclosure to be focused on information that is really relevant and useful for the users.

We are also in agreement with the description of such business combinations which is laid out in the Basis for Conclusions (paragraph BC54 and BC55) and has been widely exposed in the IASB's presentations: "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".

We are, however, somewhat uncomfortable with by the approach adopted in the proposed standard, which appears to forget this principle and to develop in its place a rules-based approach. We think that the proposed thresholds do not reflect the notion of "strategic" as laid out in the Basis for Conclusions (BC). Moreover, some of them are not appropriate for certain sectors of activity, especially if they are cumulative (see last comment). We would therefore be in favour instead of incorporating the description of the BC as the general principle in the body of the standard and, possibly, to complement it with examples which could be informed by the criteria currently proposed in the ED.

As far as the proposed quantitative criteria are concerned, even if these were to be only to be taken as indicative, we think that the threshold based on the operating result should be treated with caution, as this can be very volatile and might therefore introduce a lack of consistency into the analysis of what constitutes a strategic business combination. It might be preferable to use an average based on a few years' actual operating results to avoid this anomaly. Finally, we believe that the proposed thresholds are too low and should be raised to 25%, in line with the thresholds currently applied by our national regulator for certain transactions. This threshold is that imposed by Delegated Regulation 2019/980 in the European Union for proforma financial information.

Finally, on the matter of the qualitative criteria, we initially understood that these would be modelled on IFRS 8 rather than IFRS 5. In other words, an acquisition would be deemed to be strategic only when it results in the creation of a new sector of activity or geographical segment in accordance with the definitions of IFRS 8. However, the current proposals are written in such a way that some users of IFRS might interpret this to mean that any acquisition, even of a very minor nature, would be considered to be strategic from the first instance that some cash, however little, was invested in a new geographical zone.

Finally, we are not certain whether the three criteria in paragraph B67C should be read cumulatively or not, as there is no link ("or" or "and") between paragraph B67C(a) and B67C(b), whereas there is an "or" at the end of C67C(b). If it is the Board's intention that if any one of the criteria (a), (b) or (c) is met, the business combination is a strategic business combination, then the opening sentence of paragraph B67C should make this clear.

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

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.

We are very supportive of the principle of providing an exemption from disclosing information of a sensitive nature and recognise that the IASB has tried to respond to the concerns of issuers. We also recognise the need to define clearly the scope of this exemption in order to avoid its being used in inappropriate circumstances.

Nevertheless, our reading of the current drafting leads us to think that the exemption could not be applied to instances which appear to us clearly to relate to cases of sensitive information. By concentrating solely on the risk of prejudice to the key objectives for the business combination that disclosure would create, the text would make it difficult for the exemption to be used in respect of, for example, synergies which are not the principal objective of the business combination or in respect of certain information with a social or legal dimension that may be source of serious prejudice without jeopardizing the key objectives defined at the acquisition date.

Thus consider the following example: the key objective of the acquisition is an increase in revenue, but the acquisition price reflects the synergies expected in relation to operating costs. If only the revenue increase is declared as a key objective, then the obligatory disclosure of any restructuring would generate a « social » risk which could be very prejudicial to the entity without its necessarily affecting the objective of the growth in revenue. It seems to us that the exemption should be available for application

to the disclosure of the expected synergies, even if such disclosure would not necessarily imperil the key objective. Moreover, the acquirer might be subject to a non-disclosure obligation imposed by the seller for a variety of reasons. In this case, the risk is not to the key objectives of the business combination but that of litigation or prejudice to another contract.

We therefore believe that the concept should not be limited by the objectives of the business combination but extended to social and legal risks.

Finally, the obligation to disclose the reasons for the application of the exemption can constitute information which is sensitive in itself. We are also of the view that the notes to the financial statements are not the place to justify the way the standard has been applied. If an issuer applies the exemption as allowed by the standard, it should not be obliged to justify this; this is an exercise in the application of the requirements of IFRS which should be justified to, and verified by, the auditors.

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

(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?

With the proviso of what we stated in response to Question 1, we are in favour of the approach that the key objectives and targets should not be those imposed by the standard-setter but should reflect the intentions and objectives of the management of the acquirer in making the acquisition.

(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?

Again, with the proviso of our response to Question 1, we agree that if the management continues to monitor the initial key objectives and targets, it is relevant to provide information to users about any significant departure that might occur, and which could potentially have a significant impact on the entity's future financial statements. There may be departures (both positive and negative) from the original targets, but these do not call into question the whole Group's financial performance.

(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 long as the requirement for the information is limited to a strategic business combination, then we think it could be relevant for the issuer to state that there are no acquisition-date key objectives or targets and to explain the reasons for this.

In respect of the requirement of paragraph B67B(b) to disclose « that information » relating to information based on the metric originally which continues to be received but no longer reviewed by management, we interpret this to mean that the acquirer shall continue to disclose the metrics rather than just the fact

that the metrics exist but are not used, and the reasons for this. If this interpretation is correct, we wonder whether it is relevant and useful to continue to disclose such metrics to interested parties. The period of 2 years after the acquisition seems reasonable.

Question 5—Disclosures: Other proposals

The IASB proposes to add new disclosure objectives in proposed paragraph 62A of IFRS 3 (see paragraphs BC23–BC28).

The acquirer shall disclose information that enables users of its financial statements to evaluate:

(a) the benefits an entity expects from a business combination when agreeing on the price to acquire a business; and

(b) for a strategic business combination (see paragraph B67C), the extent to which the benefits an entity expects from the business combination are being obtained.

We are not opposed to the inclusion of these disclosure objectives but think that their effect on the way the proposed requirements have been drafted needs to be revised (see our response to Question 1 and Question xx).

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

We note that current IFRS 3 requires that the entity explain the elements that have given rise to goodwill, and that this might include the effect of expected synergies. Although we accept that this paragraph (B64(e)) should perhaps be given more prominence and could be complemented by more guidance and examples, we do not understand why the IASB has focused its proposals particularly on the disclosure of synergies.

We would emphasise the fact that a business combination does not always result in expected synergies. Moreover, it is sometimes the case that an entity hopes that synergies will result from the combination but that these remain secondary to the key objectives of the business combination. We therefore think that specific disclosures in respect of expected synergies should be required only if they constitute a key objective of the transaction in their own right.

We would also point out that the valuation of synergies may not be as straightforward as the ED's proposals may lead one to believe, particularly at the level of detail required, and will, of course, come at a certain cost and the auditors' expected reservations about expressing an opinion on this information with the same level of assurance as on the rest of the financial statements. Finally, these are elements which are often of a sensitive nature. It is thus important that the exemption from disclosure of sensitive information be available for these items. It is also important that the IASB maintain in the future standard the possibility of disclosing information about synergies at an aggregated level and expressed in terms of a range, as is generally currently observed when some groups communicate on these matters.

Finally, we would point out that the insertion of proposed paragraph B64(ea) into the range of required disclosures defined in paragraph B65 means that the detailed estimates of expected synergies will be required for individually immaterial business combinations that are material collectively. We do not agree with this since the information provided is unlikely to be useful (since it will include a range of estimated synergies and costs for a number of immaterial business combinations projected over a range of timescales) and may well prove difficult and costly to provide. The materiality exception cannot be applied since this would be required information for business combinations which are collectively material. We think that the Board should reconsider the drafting of paragraph B65 and/or B64, to ensure that the requirements of paragraph B64(ea) do not apply to such business combinations which are non-strategic.

The strategic rationale for a business combination (paragraph B64(d) of IFRS 3)

We agree.

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.*

We understand that the IASB has decided to retain the requirement in paragraph B64(q) of IFRS 3, even though many preparers have expressed concerns about the complexity of such disclosures.

However, we note that the IASB proposes to complement the current provisions with the obligation to develop an accounting policy to prepare this information. We believe that such accounting policy is not useful and impracticable. Indeed, each business combination is done in a specific environment and the nature and reliability of the information available for such exercise may be different for each situation. The only decision-making criterion should be the best balance between available information and the usefulness of the information, and not a single accounting method.

We also understand and accept that the Board does not impose any specific method, but it could be useful that the Board recognises explicitly that certain proxies, such as non-IFRS statutory accounts, are acceptable provided that the method used is clearly explained in notes.

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

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).

We welcome the IASB’s decision not to revise fundamentally the methodology of the impairment test. We think that the clarifications provided about the allocation of goodwill to CGUs may be useful to those who have difficulty with the application of the current requirements.

However, we have the following concerns:

- The question above is formulated as « the IASB is proposing changes to the impairment test” and is accompanied by transitional provisions, whereas it is stated that the proposals are merely clarifications which do not change the established principles. We think that the transitional provisions provided for IAS 36 relate only to the proposed simplifications of the test” and value in use measurement.;
- The drafting of paragraph 80(a) has given rise to different interpretations: We understand that it is an economic business activity which is monitored rather than the goodwill as such, but some interpret this drafting to mean that the entity can allocate goodwill only to an acquired legal entity or only to the activity acquired (without the possibility of allocation to other group entities or activities which will nevertheless benefit from certain of the synergies. Still others have

interpreted this modification in conjunction with paragraph 80A(b) to mean that the goodwill should be allocated to the lowest level at which the economic activity is monitored; this could be a single retail outlet or a service station within a CGU in the case of an acquisition of a chain of such outlets. As we do not believe that it was the Board's intention to revisit the allocation principles in such a major way, we suggest that it amend the wording.

- Paragraph 80A(b) refers to the lowest level for which there is information available for cash-generating units, whereas paragraph 80A(a) refers to both cash-generating units and groups of cash-generating units. For sake of consistency, we believe paragraph 80A(b) should also refer to groups of cash-generating units, as the management's monitoring might be performed at this aggregated level.

Proposal to reduce management over-optimism

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)

We have no objections to this proposal.

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)

(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 are very much in favour of the proposals which will have the double effect of simplifying the test and reinforcing the link between the impairment test and internal performance projections used for management. The proposals will provide simplification since there will be less requirement to make adjustments to the internal projections, which can sometimes be complex to perform, and will increase the quality of governance and assurance.

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

Not relevant

Question 9—Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard)