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IFRS Developments

# IASB proposes amendments to IFRS 3 and IAS 36

**What you need to know**

- The IASB is proposing amendments to the disclosure requirements in IFRS 3 and to the impairment test in IAS 36.
- The proposals are introduced as part of a standard-setting project on business combinations that aims to explore whether entities can, at a reasonable cost, provide users with more useful information about business combinations.
- Comments are due by 15 July 2024.

## Highlights

On 14 March 2024, the International Accounting Standards Board (the IASB or Board) issued an Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (proposed amendments to IFRS 3 and IAS 36) (the ED). The Board is proposing amendments to IFRS 3 *Business Combinations* and IAS 36 *Impairment of Assets* that primarily relate to:

- The disclosure requirements in IFRS 3 — in particular, to require entities to report information about the performance of business combinations and quantitative information about the synergies expected to arise from a business combination. However, entities would not be required to disclose information that could prejudice seriously their acquisition-date key objectives.
- The impairment test in IAS 36 — in particular, to make targeted amendments relating to the calculation of value in use, the allocation of goodwill to cash-generating units, and the disclosure requirements.

Who will be affected by the proposals, if confirmed?

- The proposed changes to IFRS 3 would affect any entity that enters into a business combination after the beginning of the first annual reporting period in which the proposals become effective. Some of the IASB's proposals would apply only to strategic business combinations.
- The proposed changes to IAS 36 would affect any entity that performs an impairment test. Some of the IASB's proposals would apply only to those entities performing an impairment test on cash-generating units containing goodwill.

The IASB welcomes comments from stakeholders. Comments are due by 15 July 2024.

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## Background

The IASB is carrying out a standard-setting project on Business Combinations — Disclosures, Goodwill and Impairment. The project's objective is to explore whether entities can, at a reasonable cost, provide users with more useful information about their business combinations. As part of that project the IASB is proposing ways to address stakeholder concerns that were identified in its post-implementation review (PIR) of IFRS 3.

## Proposed amendments to IFRS 3

The proposed amendments add new disclosure requirements that would result in an entity disclosing:

(a) For a strategic business combination, information about the performance of business combinations, specifically, information about the entity's acquisition-date key objectives and targets and the extent to which those key objectives and targets are met in subsequent periods; and

(b) Quantitative information about synergies expected to arise as a result of a business combination.

To address stakeholders concerns that some of that information is commercially sensitive and that disclosing that information could expose an entity to litigation risk, the Board has:

- Included a proposed exemption from disclosing some of this information in specific circumstances
- Proposed that an entity be required to disclose information about the performance of business combinations for only one subset of business combinations — strategic business combinations

The IASB has also proposed some other minor amendments to the disclosure requirements in IFRS 3.

## Proposed amendments to IAS 36

The IASB identified that one reason for possible delay in recognising impairment losses on goodwill is that the design of the impairment test in current IAS 36 can shield goodwill from impairment. Some stakeholders commented that goodwill can be shielded from impairment by, for example, the headroom of a business with which an acquired business is combined. Headroom is the amount by which a business's recoverable amount exceeds the carrying amount of its recognised net assets. When an entity tests the combined business for impairment, a reduction in the recoverable amount of the combined business is first absorbed by this headroom, hence, any impairment loss recognised on the acquired goodwill is reduced. The IASB is proposing clarifications to how goodwill is allocated to cash-generating units that are expected to help reduce shielding.

The IASB is also proposing limited changes to the disclosure requirements in IAS 36 that should help improve the application of IAS 36 and mitigate concerns about management over-optimism in relation to the assumptions used in the impairment test.

In addition, to respond to concerns about the cost and complexity of the impairment test, the IASB proposes changing the calculation of value in use by:

- Removing the restriction on including cash flows from uncommitted future restructuring or asset enhancement
- Removing the requirement to calculate value in use on a pre-tax basis
- The IASB believes that removing these restrictions would bring inputs used in the impairment test closer to the information used by management, which should result in investors receiving more relevant information.

## Amortisation of goodwill

As part of the project, the IASB also considered reintroducing amortisation of goodwill. On balance, considering extensive evidence collected, the IASB concluded it had no compelling case to justify reintroducing amortisation of goodwill and so decided to retain the impairment-only model for the subsequent accounting for goodwill.

**Next Steps**

Comments are due by 15 July 2024. The IASB will consider comment letters and other feedback from its consultations on the proposals in the ED and will then decide whether to issue the proposed amendments.

**How we see it**

We support the IASB's continued efforts to help investors better assess management's decision to make an acquisition and the performance of that acquisition.

We strongly encourage stakeholders to provide feedback to the IASB on the proposed amendments.



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ED None