International Acccounting Standards
Board (IASB)
Dr Andreas Barckow, Chair
30 Columbus Building
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Canary Wharf
London E14 4HD
United Kingdom

15 July 2024

Dear Dr Barckow,

Re: ED 2024 1 Business Combinations: Disclosures, Goodwill and Impairment

BusinessEurope welcomes the opportunity to comment on the Exposure Draft "Business Combinations: Disclosures, Goodwill and Impairment". We appreciate the efforts of the International Accounting Standards Board (the "Board") to find a middle ground between the information requests of users and the concerns raised by preparers of financial statements.

With regard to the definition of a strategic business combination, we support the Board's efforts to define a threshold-based approach. However, in certain circumstances (e.g. when operating margins are low due to unusual circumstances), the criteria have the potential to classify business combinations as strategic while they are not regarded as such by the entity's management nor investors, leading to an artificial overstatement of the strategic importance of the acquired business. Thus, BusinessEurope proposes that the criteria, if kept in the final amendment, are to be applied on a "two out of three" basis, or considering the average threshold amount over the past three years, to ensure the validity of the classification and attached information. As an alternative, the criteria for a strategic business combination in B67C could be replaced by the principles stated in paragraph BC 54, with the thresholds being considered indicators.

We disagree with the required quantification of the synergies as they contain forward looking and sensitive information which may introduce litigation risk and weaken the negotiating position of the reporting entity. The quantification is also subject to judgement and uncertainty and will not only be costly to produce but also to audit. We also note that most acquired businesses are integrated into the acquirers' operations very quickly and thus providing information on an individual level is not possible, while information for the combined business does not fulfil the information needs of users (i.e. to assess the performance of the acquired business). We see potential disadvantages for IFRS adopters against competitors applying other accounting standards. Maintaining an economic level playing field is of utmost importance.

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We agree and support in general the proposals regarding the impairment testing in accordance with IAS 36 but have some concerns regarding the allocation of goodwill to (groups of) cash generating units.

Please find our detailed comments in the Appendix to this letter.
Yours sincerely,

Erik Berggren
Senior Adviser

APPENDIX

Response to Question 1:
In general, we agree that, for business combinations that are considered to be of strategic relevance, increased transparency should apply. Indeed, we would expect companies to increase the level of information for such business combinations as a matter of course..

We also consider that the base case for business combination will be one in which the acquired business will be rapidly integrated into the existing business activities. In this case, the ED requires that disclosure should be made for the combined business. This in turn does not provide for an adequate basis for the review of the performance of a specific business combination. We further note that providing information on a combined basis goes beyond the objective of the ED and might discourage companies from growing other than organically. This situation would be detrimental in general, as it could be expected to dissuade entities from engaging in acquisition activity. It would also contradict the objective of maintaining a level playing field with US GAAP preparers.

Response to Question 2:
We appreciate the efforts made by the IASB to provide a practical approach to the identification of a strategic business combination. As the BC of the ED sets out, a strategic business combination is one that – if it fails to meet any one of an entity's acquisition-date key objectives – would seriously put at risk the entity achieving its overall business strategy.

Given that there may be multiple acquisition-date key objectives, it seems to us unlikely that failing only one of them would put the overall business strategy at risk. This is a high hurdle to overcome, and thus few business combinations would be classified as such. We think that this is consistent with the management's view of what constitutes a strategic acquisition.

We note however, that the proposed thresholds do not seem to be aligned with the description.
In contrast to the above definition, the 10%-thresholds on operating profit, revenue or acquired assets (incl. goodwill) would probably be met much more easily, i.e. business combinations may be – based on the threshold approach – classified as strategic although the overall business strategy is not put at risk if that business combination is unsuccessful.

We note that the Board has looked at other standards to identify known and existing thresholds. However, we are not convinced that the thresholds in this instance are fit for purpose and have the following concerns:

The criteria regarding the 10% of revenue and operating profit may be distorted by multi-year seasonality and extraordinary circumstances. For example, companies undergoing a significant change in their product portfolio may be subject to unusual decreases in revenue and operating profit. Especially for the operating profit, such situations may trigger a close to zero result, in which case all of the business combinations of the subsequent period would be regarded as strategic business combinations.

With regard to the criteria of the acquired assets, we ask the Board to consider clarifying whether the acquired asset include adjustments from the purchase price allocation. In addition, for business combinations containing non-controlling interests, we note that IFRS 3 gives the acquiring company the choice to either recognize the goodwill in full (including the amount attributable to non-controlling interests) or in part (limiting the goodwill to the share of the acquirer). We therefore wonder how companies should take this optionality into consideration and ask the Board to provide guidance on this matter.

Taking into account the comments made above, we therefore suggest that the criteria, if maintained in the final amendments, should be applied on a "two out of three"-basis in order to mitigate the risk of business combinations being classified as strategic when management does not regard them as strategic and, consequently, application of the amendments would lead to an artificial overstatement of the relevance of such a transaction. Alternatively, the average of each threshold amount over the past three years could be used, to avoid "one-off" distortions.

Response to Question 3:
We appreciate that the IASB has taken note of preparers' concerns with regard to the sensitivity of the information provided. We believe that this is crucial to protect the competitive position of the preparer, especially since the disclosures are to be made as early as when the business combination occurs, i.e. long before the expected synergies may unfold and give effect to the assumed advantage of the business combination (e.g. in comparison to an organic growth strategy). We are convinced that investors will place more value on a confidential strategy that is well-executed than on a well-disclosed strategy that fails due to competitive insight obtained via that disclosure.

However, we believe that the criteria of the proposed exemption make the exemption overly hard to apply. We assume that entities will struggle to pinpoint the disadvantageous effects of a disclosure to a sufficient extent in order to meet the criteria. Furthermore, the very detailed description required would highlight the concerns, thereby defeating the purpose of the exemption.

We therefore think that the Board should better describe and provide examples for situations in which the use of the exemption would be intended, so companies will

actually be relieved from providing onerous disclosures to safeguard their competitive position.

Response to Question 4:
In general, we agree with the proposals set out above. However, we believe that the base case for business combinations (strategic as well es non-strategic) will be the integration of the acquired business into the ongoing operations of the acquirer. As set out in ED.IFRS 3.B67A, the information that management uses to review the performance shall be the information to be disclosed. However, providing information on a combined basis only is unlikely to respond to the concerns raised by users (i.e. too little information about the business combination's performance) because the integrated business is subject to impacts other than just the performance of the acquired business. It also gives away sensitive information about the combined business, which in some cases may be an operating or even reportable segment. Providing information about targets and metrics on this level by far exceeds the intended purpose of the disclosures and is likely to have unintended economic impacts on the disclosing entity.

Further we note that companies will only monitor business combinations that they consider to be of truly strategic relevance. Disclosing the fact that a company does not monitor an acquired business although it is classified under the ED as be strategic (e.g. by applying the threshold approach) seems therefore contradictory and raises the question whether the proposed thresholds are suitable to identify business combinations that are really of strategic relevance.

We therefore think that the ongoing provision of information on strategic business combinations should be restricted to business combinations that are reviewed on an individual basis.

Response to Question 5:

Objective

We agree in general with the objective. However, we believe that there are very limited cases in which companies will actually be able to fulfil the objective (for reasons provided in the responses to other questions).

Strategic rationale
We believe that there will be little (if any) difference to the current disclosure requirements where IFRS 3 asks for the "primary reasons" for the business combination. We presume that companies will disclose some of the expected synergies on a concrete / quantitative and others on a general / qualitative basis due to the sensitivity of the information, e.g. whether cost synergies which will be realized by restructuring measures. In any case, as investors will welcome deal details and reward