FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

July 4, 2024

Dr. Andreas Barcko
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus, Canary Wharf,
London E14 4HD, United Kingdom

Dear Dr. Andreas Barckow

Response on IFRS Standards Exposure Draft ED/2024 - Business Combinations—Disclosures, Goodwill and Impairment (Proposed amendments to IFRS 3 and IAS 36)

The Federation of Accounting Professions would like to show our appreciation on the opportunity to response on **IFRS Standards Exposure Draft ED/2024 - Business Combinations—Disclosures, Goodwill and Impairment (Proposed amendments to IFRS 3 and IAS 36).** Overall, we mostly agree with the proposed amendments to these standards. However, there are some concerns and suggestions should be added to the proposed draft.

Please find our responses to the specific survey raised in **IFRS Standards Exposure Draft ED/2024 - Business Combinations—Disclosures, Goodwill and Impairment (Proposed amendments to IFRS 3 and IAS 36)** in an attachment. We believe that these responses will help the practitioners in the future and that our response will contribute positively to the IASB's due process. Should you need more information, please kindly contact the Federation of Accounting Professions.

The Federation of Accounting Professions avails itself of this opportunity to the International Accounting Standards Board the assurances of its highest consideration.

Yours sincerely,

Associate Professor Dr. Vorasak Toommanon
Chairman of Thai Accounting Standards Board
Thailand Federation of Accounting Professions
Bangkok, Thailand

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July 4, 2024

Mr. Muhamed Imran Khan
AOSSG Chair Secretariat Accounting Standards Board
The Institute of Chartered Accountants of Pakistan,
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Karachi-75600

Dear Mr. Muhamed Imran Khan,

Response on IFRS Standards Exposure Draft ED/2024 - Business Combinations—Disclosures, Goodwill and Impairment (Proposed amendments to IFRS 3 and IAS 36)

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IFRS Standards Exposure Draft ED/2024 - Business Combinations—Disclosures, Goodwill and Impairment (Proposed amendments to IFRS 3 and IAS 36)

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).

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

TFAC: While we agree that disclosures for business combinations post-acquisition are useful to investors, we consider the proposed disclosures to be non-GAAP measurements (such as synergies and KPIs etc). These are managerial numbers rather than GAAP measurements. Investors might assume that this information is consistent with GAAP standards and use it to compare with other entities. Also, this information is typically disclosed in the management commentary section (e.g., MD&A). Thus, the more appropriate place for this information is in the management commentary section.

We are also concerned that the information disclosed needs to be useful, understandable, relevant, and not merely boilerplate in nature. We would suggest that the IASB clarifies the disclosure requirement, particularly B67A(b). The selection of the information (selective KPIs, information) requires a lot of judgment, as some aspects are not quantifiable in terms of materiality or in leading to a consideration of whether the acquisition price is appropriate. Preparers, regulators, and auditors need more application guidance on this.

Investors indeed seek comprehensive data to inform their decisions, but the question remains whether the financial statements are the optimal vehicle for delivering this business insight. Financial statements are designed to present a clear, concise, and comparable snapshot of an entity's financial health, and the inclusion of this information could potentially obscure this primary objective.

We suggest that alternative reporting channels, such as the Management's Discussion and Analysis (MD&A), could be more appropriate for such disclosures. The MD&A allows for a more flexible narrative that can contextualize the KPIs and performance metrics within the company's broader strategic framework, providing investors with a richer, more nuanced understanding.

In light of these considerations, we respectfully request that the proposal be reassessed to determine the most effective means of communication for this information. By doing so, we can ensure that the financial statements remain a tool for clear financial reporting, while also catering to the informational needs of investors through the most suitable channels.

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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?

TFAC: We agree that a threshold approach might be appropriate, but there are circumstances where we have concerns.

- When quantitative thresholds of 10% are used, there is a risk of unintended results. For example, the operating profit, revenues, or total assets of a reporting period could be impacted by an unexpected event, such as a material loss from a non-recurring event or impairment. Applying a fixed threshold could result in an entity having to classify a clearly non-strategic acquisition as a strategic one.

- Under the existing IFRS 3, entities are permitted a 12-month measurement period to finalize and report the relevant figures associated with a business acquisition - purchase price allocation. This purchase price allocation period is critical for ensuring that the values attributed to the acquired assets and liabilities are accurate and reflective of their fair value at the acquisition date. However, there appears to be a lack of guidance on how entities should perform the 10% threshold testing for assets, revenue, and profit during this measurement period.

- Refer to B67C, the quantitative testing of strategic business combination were performed basing on the latest annual operations however for assets side test on the most recent statement financial position. We viewed that this is inconsistency and in some cases the testing result in a different conclusion due to non-recurring or significant transactions occurred in the subsequent period from the latest annual report however reflected in the latest statement financial position.

- We acknowledge the proposed disclosures requirement concerning the operating profit/loss of the combined business and the acquiree, as defined in the IASB's Primary Financial Statements project. It is our understanding that this definition may exclude the operating results from investing activities, such as profit sharing from associates or joint ventures and financing activities. This exclusion could lead to a presentation of operating profit/loss that does not fully align with the comprehensive operational performance investors may expect to review.

- We do not see a clear conclusion on applying a qualitative basis for new lines of business or new geographical markets. There could be other reasons that an acquisition is considered strategically important, such as offering new products in current markets, acquiring R&D assets like new technologies, acquiring important competitors (to gain market share), customers or suppliers (for example, to integrate upstream/downstream processes in the value chain). In our view, the IASB should adopt a more principles-based approach to the qualitative definition of a strategic business combination.

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.

TFAC: We maintain the view that the proposed disclosures concerning the business acquisition and post-acquisition are, in essence, Non-GAAP information. As such, we would like to request IASB to reconsider the appropriateness of their placement within the financial statements (e.g. MD&A instead).

Should the IASB decide to proceed with the inclusion of these disclosures in the financial statements, we have no objection on the provision of an exemption on the grounds of commercial sensitivity and litigation risks. The disclosure of certain strategic and operational details could inadvertently reveal competitive insights or expose the entity to legal challenges, which may not be in the best interest of the entity or its stakeholders.

However, we have the following concerns on the exemption applicability:

- More guidance is needed to ensure that it is consistently interpreted and applied. Examples would be helpful to illustrate situations or circumstances in which disclosure could seriously prejudice the achievement of key objectives and warrant an exemption, and cases in which it would not.

- Additionally, more guidance would be needed when the information is non-financial, such as the achievement of certain innovations, research and development projects, or ESG-related commitments.

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:

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

TFAC: We generally support the initiative to define the management level applicable to this disclosure requirement and agree that entities must disclose whether management has ceased or continues to review the relevant information, as well as the period for which this information must be disclosed. However, we have the following concern:

- We recognize that the definition of key management personnel in IAS 24 Related Party Disclosures is intended to identify a broad group of employees. Therefore, we would appreciate additional guidance on the application of this definition to multi-level management or committees. For example, to apply this concept when the top management does not review such business acquisition but specific unit management review it.

- In practice, it is observed that the terms 'CODM' (Chief Operating Decision Maker as defined in IFRS 8) and 'key management personnel' (as referred to in IFRS 7 and IAS 24) are often used interchangeably when applying this disclosure requirement. We would like to seek clarification on whether these concepts are synonymous and how to ensure a proper understanding of the differences between them.

- Alternatively, if providing such guidance is not feasible, we propose that the standard could offer entities the flexibility to define their own management. This approach would allow entities to consider their unique organizational structures and governance practices when develop the disclosures, thereby ensuring that disclosures are tailored to reflect the actual oversight and control mechanisms in place from the management perspective.

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.

Question 5—Disclosures: Other proposals
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?

TFAC: Apart from what we have already outlined our observation and request in the above questions, we have below suggestions and concerns.

- We do not support the proposed reference to accounting policy as it may be understood to imply that the guidance in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors related to changes to accounting policies is applied. Instead, we would suggest that the standard requires a description of the method, assumptions and estimates made.

- The proposed disclosures concerning expected synergies from business combinations involve a high degree of subjectivity, as they are based on forward-looking information and management's expectations about future benefits and benefits can be defined openly. Entities needs guidance and the detailed guidance on how to determine synergy. The disclosure of expected synergies from business combinations involves a high degree of subjectivity due to their forward-looking nature and the broad ways in which synergies can be defined. Synergies refer to the anticipated benefits that result from the combination of two companies, such as cost savings, increased revenue opportunities, or improved efficiencies. However, estimating these benefits can be challenging and requires careful consideration. To address the subjectivity, entities needs a framework/guidance for entities to determine and disclose expected synergies.

- The required disclosures of operating profit/loss concerning the operating profit/loss of the combined business and the acquiree, as defined in the IASB's Primary Financial Statements project. It is our understanding that this definition may exclude the operating results from investing activities, such as profit sharing from associates or joint ventures, and financing activities. This exclusion could lead to a presentation of operating profit/loss that does not fully align with the comprehensive operational performance investors may expect to review, the incomplete set of performance also lead to the deviation from the objective of this disclosure identified in BC411 (b) of IFRS 3. This can prevent the users of financial statements to forecast future performance of the combined entity due to the incomplete set of baseline performance.

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?

TFAC: (a) We agree that clarifying the guidance of goodwill allocation can help reduce any possible delay in recognising impairment loss on goodwill.

(b) We partially agree that the disclosure of which reportable segment that a CGU containing goodwill is included might provide useful information to the users. However, there is no clear linkage of how the disclosure can be reduce the management over-optimism. In addition, the management assumption is a subjective area and is normally addressed by external auditor, and this might not be the main cause of the possible delay in recognising impairment loss on goodwill.

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?

TFAC: (a) We agree with the proposal removing constraint on including cash flows from future restructuring or improvement because it is more aligned with the management expectation to obtain future economic benefit from assets where they are currently having potential to restructure or improve. In addition, we suggest that the amendment should include guidance or examples of which circumstances that these cash flows are eligible to be included in VIU calculation.

(b) We agree with the proposal to remove requirement to use pre-tax cash flows and pre-tax discount rate because this is more align with the valuation practice and reduce complexity of impairment testing.

Question 8—Proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures
The IASB proposes to amend the forthcoming IFRS X *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 pretax or post-tax (paragraph 193 of the Subsidiaries Standard). See paragraphs BC252–BC256. Do you agree with the proposals? Why or why not?

TFAC: We disagree with the proposal because an additional extensive disclosure relating to the business combination would create a burden to the entity without public accountability in preparing its financial statements.

Question 9—Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O 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.

TFAC: We agree with the proposal to apply the amendments prospectively.