

13/06/2024

International Accounting Standards Board

Re: ED Business Combinations – Disclosures, Goodwill and Impairment

We support the IASB's objective to provide users with more useful information about business combinations, at a reasonable cost. However, we have concerns regarding the placement of the disclosures and the requirement to disclose information regarding expected synergies and other forward-looking disclosures.

We appreciate that the IASB needed to make a choice with regards to the placement in management commentary or as disclosures in the obligatory IFRS statements. That trade-off has required the introduction of the possibility of not disclosing commercial sensitive information.

The Swedish Bankers' Association would favour that the disclosures are placed in the management commentary. The advantage is that it reduces the legal risk for the preparers at the same time as the preparers may be willing to provide more narrative/explanatory information to the users for their understanding of the business rationale for an acquisition.

We fear that the IASB now will fail in its objective of providing more useful information about business combinations since our expectation is that only few preparers will provide the information.

Finally, we want to highlight that information about synergies should only be provided when first presenting the acquisition. Thereafter the subjectivity of providing the information will be so significant that it would lack relevance for the users.

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

We believe that performance evaluation of a business combination, along with other performance evaluations, is more appropriate in management commentary outside of the audited financial statements. The proposed required disclosures appear to be geared towards management accountability rather than assisting users in assessing the economic impact of an acquisition.

Irrespective of geography of disclosures, we support the split into strategic and other business combinations and that the disclosure requirements are more limited for other business combinations. Having said that we see significant difficulties in tracking the actual performance also on strategic business combinations when integrated into the existing operations and when synergies arise in several and different parts of a group. We thus think that subsequent disclosures after initial recognition of how the synergies have been realised are not useful due to the substantial subjectivity in the measure. Should the IASB disagree, we welcome the simplification in B67B to be applied if such information is not available. Separately tracking such performance only for disclosure purposes is expected to give rise to system development and significant cost that is expected to exceed the increase in usefulness of external reporting, as well as not being in line with the management approach on which the ED is based.

In addition, we believe that the requirement in B64(ea) covering the disclosure of expected synergies should be applied only for strategic business combinations, if kept at all. We propose that the disclosure requirement in B64(ea) is transferred to B67A if kept at all and that it is covered by the exception in B67B.

The ED proposes a requirement to disclose information reviewed by key management personnel as defined in IAS 24. To ensure consistency with other financial performance disclosures we suggest to rather require disclosure of information presented to the CODM as defined in IFRS 8, and to align this with the impairment testing requirements in IAS 36 (see also our response to Question 6).

Finally, we also recommend the IASB to revisit the term “strategic business combination”, as it is up to the preparer to decide on if an investment is to be considered strategic.

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

We agree with the principle of having thresholds, but believe the threshold based on the operating profit or loss or revenue should reflect a longer period than one year, or that the requirements should allow adjustments for items affecting comparability, both in the acquiree and acquiror. A single year can be impacted by factors not representative of the size of the business in the acquiree or acquiror. We also propose to clarify if both B67C(a) and (b) relating to the quantitative thresholds have to be fulfilled to fulfil the strategic business combination trigger. We furthermore believe that the quantitative thresholds should be rebuttable, meaning that also business combinations above the quantitative thresholds could be classified as other business combinations if this can be documented on a qualitative basis. This assessment should take into account the definition of a strategic business combination provided in BC54: *“A strategic business combination would be one for*

which failure to meet any one of the entity's acquisition-date key objectives would put the entity at a serious risk of failing to achieve its overall business strategy".

We suggest applying only B67C(a) and (b) for all acquisitions, as we do not consider it appropriate to define a business combination as strategic only because it has been made in a new geographical area or line of business. We also note that "geography" is not defined and thus it can be interpreted differently in different entities. An acquisition can also include business in different "geographies", some of which can be new and some in existing geographies.

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

We support that the exemption to disclose information covers expected synergies in B64(ea) as proposed, but that it should in addition cover all requirements foreseen for strategic business combinations, in the year of acquisition and subsequently, as required in B67A. The exemption should include B67A(b)(i), as quantitative data about actual performance can be harmful, for instance if contingent purchase price clauses remain effective.

We also propose that it is explicitly stated in the standard that disclosures can be excluded due to commercial sensitivity, confidentiality, or legal restrictions.

See also our response to Question 1 for additional comments.

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

We support the requirement to disclose information that has been reviewed by management but suggest that B67A could refer to the requirements on materiality in IAS 1 to only provide information that is material in order to avoid disclosure overload.

Furthermore, we suggest that management is defined as the CODM as stated in the response to Question 1. This would according to their opinion allow for that disclosures are better aligned with disclosures on the financial performance of operating segments and that the most relevant and significant information is consequently disclosed.

We support the requirement in B67B that allows an entity not to disclose the information in B67A(b) about the performance of strategic business combinations under these circumstances (see also our response to Question 1). We also propose to add to B67B that

the review of the actual performance has to include adequately controlled quantitative data to trigger quantitative disclosure.

We in addition propose that an entity is allowed to stop presenting qualitative and quantitative disclosures about a strategic business combination when such information is no longer considered significant for users of financial statements, although still reviewed by management. A business combination executed on many years ago may no longer be considered strategic although still included in regular reporting to management.

Question 5 – Disclosures: Other proposals

We agree with these proposals, with the important exception in relation to the proposed requirements in B64(ea) about expected synergies. As stated in the response to Question 1 we believe that this requirement shall be requested for only strategic business combinations and therefore transferred to B67A and be covered by B67B. Preparing this information only for disclosure purposes would add significant cost that is expected to exceed the increase in usefulness of external reporting.

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

We believe the requirement to test goodwill on a certain level should be defined as the level reviewed by the CODM as defined in IFRS 8, meaning on operating segments. We generally favour that disclosures in external reporting should be aligned with information provided to the CODM and that impairment testing shall consequently also be performed on this level. We therefore do not support paragraph 80B and 83(b) that may require impairment testing on a different level than that of the information reviewed by the CODM, which may disconnect the impairment testing from the ordinary assessment of financial business performance.

We understand the intention of the Board is to avoid shielding, but do not think that is possible to achieve with the current impairment testing model and we believe amortisation of goodwill is the only effective way of making sure goodwill is ultimately derecognised.

We support the amendment to paragraph 134(a) for what concerns disclosure of reportable segments that contain the CGU 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)

We agree on the proposal to remove the constraint on including cash flows arising from future restructurings to which an entity is not yet committed. Restructurings are a normal part the business rational of an acquisition and the change will increase the alignment with the acquirers forecasted cash flows and the cash flows used for impairment testing.

We also support the removal of the requirement to use pre-tax cash flows and discount rate, as the cost of equity generally used as discount rate is defined as a post-tax measure.

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

We have no comment to this question, other than that it should be possible to avoid disclosure in individual financial statements if relevant disclosure is provided in the external reporting for a Group to which the subsidiary belongs.

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

We agree with the proposal. Retrospective application could be very burdensome, and relevant information could be difficult to obtain, for acquisitions made several years ago.

Yours sincerely,

SWEDISH BANKERS' ASSOCIATION

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