



International Accounting Standards Board (IASB)  
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London E14 4HD  
United Kingdom

Berne, 15 July 2024

**Comment Letter on Exposure Draft: Business Combinations—Disclosures, Goodwill and Impairment**

Dear Madam, dear Sir,

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 61 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to this Exposure Draft (ED).

Our association supports the IASB's initiative to refine disclosures on business combinations as highlighted in the Exposure Draft, identifying key areas for enhancement to ensure that the changes are both practical and streamlined. We believe the volume of required disclosures, particularly those involving forward-looking information and performance metrics, can be overly burdensome. Introducing greater flexibility into these requirements would better balance transparency with the protection of sensitive information. These adjustments aim to enhance transparency while ensuring that the standards are both practical and manageable, thus preventing excessive burdens on entities.

We provide our comments in relation to the specific questions raised in the ED in the annex.

If you require any further information upon these matters, please do not hesitate to contact us.

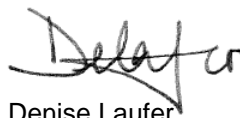
Yours sincerely,

**SwissHoldings**

Federation of Swiss-based multinational enterprises



Dr. Gabriel Rumo  
Director



Denise Laufer  
Member of the Executive Committee



## Annex

### **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).*
- (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?*

As noted in our previous Comment Letter of 23 December 2020 to the Discussion Paper DP/2020/1 (DP), we do not support the inclusion of published targets and subsequent reporting in the financial statements. We believe such information, if needed, is more appropriately included in the Management Discussion and Analysis. Moreover, the need for such governance and value-for-money reporting seems to us rather a matter for regulators than accounting standard setters.

Nevertheless, the proposal in the ED to limit the disclosures to “strategic” is a welcome improvement on the proposals in the DP. Of course, the challenge is then to define “strategic” but we believe this is the right direction-of-travel if the IASB is determined to pursue such proposals.

We would agree that the disclosure requirements in IFRS 3 should be reviewed and if necessary improved – not necessarily expanded. We believe that if users had a better understanding of what exactly was acquired and the rationale behind it, then this would reduce their appetite for subsequent reporting of the acquisition. They would have better information at the inception of the deal and would be able to do much more of the analysis themselves.

**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?*

We appreciate the IASB's efforts to provide a practical approach to identifying strategic business combinations. However, we believe that failing just one of the acquisition-date key objectives would unlikely jeopardize the overall business strategy.

We also note that the proposed thresholds for revenue, operating profit, and acquired assets may not align with the “principle-based” description provided in BC54. In general, we would recommend a threshold where the deal price exceeds 10-20% of the acquirer's market capitalization, or its fair value if it is unlisted. This would provide a reasonable enforceable threshold that can be communicated to users simply.

The criteria proposed by the ED are highly situational and the disclosure or non-disclosure of a particular transaction as “strategic” may well come down to factors such as:

- Any windfall profits or losses in the acquiring or acquired company in the year in question. These can include items such as goodwill impairment, the impact of major litigations and various other items that the IASB previously looked at in the discussions about “Unusual Items” in the IFRS 18 deliberations.
- The history of the acquiring or acquired company. For example, either of which may include substantial amounts of goodwill on their balance sheet if they are grew through previous acquisitions.

We believe the proposed thresholds will lead to volatility in the disclosures made, as the same transaction may be “strategic” for one company, due to situational issues in its IFRS profit and/or balance sheet, and not for another. And it may be “strategic” for the same company in one year and not in the next. Whilst arguments could be made for “Revenues”, any profit numbers should somehow be normalised - and we are aware of how difficult that will be.

There are many practical issues with the process proposed in the ED. For example:

- Performing this exercise for a company near to its financial year-end will prove challenging.
- Presumably an IFRS accounts conversion is required in case the acquired company uses US GAAP or some other non-IFRS standards.
- In case of the target company being a private company, up-to-date financial statements with a full audit trail may not be available.
- The change of control may well come with a change of auditors. Additionally, the acquired company may lose key personnel in its finance department prior to and after the acquisition.

IFRS 3 pp45 allows for a provisional assessment with retrospective adjustment. However, we can see no such exemption for this “strategic” assessment in the ED. We wonder how the IASB expects companies to make this assessment if the acquisition accounting has not been completed. Some clarification on this issue would be recommended for the final standard.

**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.*

We appreciate the IASB's recognition of preparers' concerns regarding the sensitivity of disclosed information. However, we find the criteria for the proposed exemption to be too challenging to apply. It is likely that entities will struggle to adequately define the detrimental effects of disclosure to meet the criteria. Additionally, the requirement for a detailed description would only draw attention to the concerns, undermining the purpose of the exemption.

Therefore, we urge the Board to provide a clearer description and examples of situations in which the exemption would be applicable.

We refer to the previous Comment Letter that we sent you on 23 December 2020 on the Discussion Paper DP/2020/1 (DP) and specifically the answer to questions 2(d) and 2(e) for a discussion of the issues.

**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:*
- 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?*

As noted elsewhere we do not support the inclusion of published targets and subsequent reporting in the financial statements. We believe such information, if needed, is more appropriately included in the Management Discussion and Analysis. Moreover, the need for such governance and value-for-money reporting seems to us rather a matter for regulators than accounting standard setters.

Providing information on a combined basis does not adequately address user concerns about the performance of the business combination. This is because the integrated business is influenced by factors beyond just the performance of the acquired business. Additionally, disclosing information at this level may reveal sensitive details that could impact our operations or reporting.

Furthermore, we note that companies closely monitor business combinations that are considered to be truly strategic. Disclosing that an acquired business is not monitored, despite it being classified as strategic based on the proposed thresholds under the ED, seems contradictory. This raises questions about the suitability of these thresholds in identifying business combinations that are genuinely of strategic relevance (as we mentioned above).



**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.*

**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?***

In terms of the strategic rationale, we expect minimal differences compared to the current disclosure requirements.

With regards to synergies, we refer to the previous Comment Letter that we sent you on 23 December 2020 on the Discussion Paper DP/2020/1 (DP) and specifically the answer to question 4 for a discussion of the issues.

We have doubts about the usefulness of categorizing expected synergies and the potential risks of providing detailed information. We disagree with the proposal to require entities to disclose quantitative information on estimated synergies, which will be extremely subjective and difficult to audit.

We also have reservations about the contribution of an acquired business and the costs and usefulness of preparing "pro forma" information. We do not support the classification of such information as an accounting policy, as it limits flexibility in adapting to individual situations. Furthermore, we question the applicability of the term "accounting policy" to a hypothetical past.

Finally, we have concerns about the effort required to provide detailed disclosures about synergies for individually immaterial business combinations that are collectively material, and we doubt the usefulness of the resulting information for users.

We support the proposal to disclose pension and debt liabilities separately in the acquisition accounting disclosures.

**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 cashgenerating 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 cashgenerating 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 cashgenerating 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?*

On the topics of Shielding and Management over-optimism generally, we refer to the previous Comment Letter of 23 December 2020 on the Discussion Paper DP/2020/1, and specifically to our answers to question 6.

We agree with the IASB's proposal to disclose the inclusion of a cash-generating unit or a group of units containing significant goodwill in a reportable segment. Indeed, many companies already do this anyway, it being seen as either general good practice or an existing requirement of IFRS 8 pp23 (i) and/or IFRS 8 pp23 (b).

However, we have concerns about the wording in paragraph 80 of the proposal, as it could have unintended consequences. The proposed change in the definition of a goodwill carrying unit from "the lowest level within the entity at which goodwill is monitored for internal management purposes" to "the lowest level within the entity at which the business associated with the goodwill is monitored for internal management purposes" is problematic.

Goodwill should be monitored at the level where synergies are expected to materialize, which is at a higher organizational level than where data is collected in the internal reporting systems, which are typically very detailed by product/service line and geography. We suggest that the IASB instead specifies that key management are responsible for reviewing the business and clarifies that the main focus of the proposal is to allocate goodwill to the level where synergies will be realized. We propose the following alternative wording to achieve this clarification:

*“Each unit or group of units to which the goodwill is so allocated shall:*

*(a) represent the lowest level within the entity at which the synergies business associated with the goodwill is monitored by key for internal management personnel purposes;...”*

**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?***
- (a) (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 strongly agree that companies should be able to include future cash flows in the estimation of value in use without artificial adjustments. We believe that incorporating internal budgets and forecasts, which consider the dynamic management of the business, would improve the accuracy of the impairment test.

We also welcome the option to use post-tax discount rates, as the pre-tax requirement can be difficult to achieve in practice. Removing the explicit requirement for pre-tax inputs and discount rates would reduce costs, provide more useful information, and align with other IFRS Standards.

**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?***

No. The rationale for the proposed additional disclosures on the objectives, targets and subsequent performance of business combinations, as set out in in the ED, focuses on the needs of investors for these disclosures. Therefore, we would recommend that private companies and subsidiaries be scoped out of these requirements. We refer to IAS 33 pp2, where a similar exemption is made for Earnings Per Share requirements.

**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.***

We support the IASB's proposal to apply the proposed amendments prospectively, with the option for early application.