STAFF PAPER

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Project	**Disclosure Initiative–Principles of Disclosure (POD)**		
Paper topic	Drafting of disclosure requirements – IFRS 3 *Business Combinations*		
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Introduction

1. This paper illustrates the application of the proposed approach to drafting disclosure requirements for IFRS 3 *Business Combinations*. The paper provides a basis for discussion and consideration of the proposed new approach to drafting disclosure sections.

2. The broader disclosure principles and objectives summarised in paragraphs 5 and 9 of agenda paper 11I have been applied to IFRS 3 similarly to how they were applied to IAS 16 *Property, Plant and Equipment* in agenda paper 11G. Applying these broader disclosure principles and objectives we have:

   (a) drafted a disclosure objective for IFRS 3;

   (b) drafted requirements for entities to exercise judgement in determining information to disclose (as discussed in agenda paper 11G);

   (c) identified information about business combinations that might be important to be disclosed (whether or not disclosure of such information is already required by IFRS 3 or other standards); and

   (d) drafted a disclosure section for IFRS 3 including disclosure sub-objectives and examples of disclosures that could meet the sub-objectives for business combinations.

3. We have also provided a comparison of feedback on disclosure requirements of IFRS 3 in response to the IASB's post-implementation review of IFRS 3 with the draft disclosure section. Feedback received through the post-implementation review was used to help shape some of the examples of disclosures that could meet the disclosure objectives in the redrafted disclosure section for IFRS 3. However, at this stage, we are not seeking feedback on the specific examples.

Disclosure objective for IFRS 3

4. The objective of IFRS 3 is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination (IFRS 3 p. 1).

5. In keeping with this objective, and applying the broader disclosure principles and objectives summarised in paragraphs 5 and 9 of agenda item 11I, an overall disclosure objective for IFRS 3 could be:

   > An entity is required to disclose sufficient relevant and representationally faithful information about business combinations to enable users of its financial statements to

understand and evaluate the effect business combinations have on the financial position, financial performance and cash flows of the entity.

Potential information for disclosure

6. In order to develop a redrafted disclosure section, we used the same approach as that taken in agenda paper 11G for IAS 16. That is, we:

   (a) listed potential information that may need to be considered for disclosure in order to meet the disclosure objectives summarised in paragraph 9 of agenda item 11I and the overall disclosure objective for IFRS 3 in paragraph 5 above; and

   (b) considered whether the potential information listed was likely to be relevant to meeting the common information needs of primary users (as discussed in paragraph 10 in agenda item 11I).

7. Set out in Table 1 below is some information about business combinations that may need to be considered for disclosure to meet the disclosure objectives as well as reasons why users of financial statements may want that information, that is, the sub-objectives of providing that information.

8. The information and sub-objectives listed in Table 1 have been used to develop the wording for the redrafted disclosure section set out in the next section of this memo.

Table 1: Information that may need to be disclosed to meet disclosure objective

Information to be provided in GPFR	**Potential information for disclosure and why users may need that information**
(a) Information about the reporting entity.	Information about business combinations during the reporting period to provide an indication of the relative importance of the effects of business combinations on the entity. This provides the context that users need to understand and evaluate the effect of business combinations on the entity's financial position, financial performance and cash flows.
(b) Information about measurement bases and related uncertainties surrounding the entity's assets and liabilities.	Information about the measurement bases used for assets acquired, liabilities assumed, consideration transferred and non-controlling interests as a result of business combinations, and the associated uncertainties, to help users understand how the amounts recognised have been determined and any significant

Information to be provided in GPFR		Potential information for disclosure and why users may need that information
		measurement uncertainties that are associated with that determination.
(c)	Information about the key risks arising from the entity's assets and liabilities.	Information about the changes in key risks to which the entity is exposed arising from businesses acquired to help users understand how they might affect an entity's financial position, financial performance and cash flows.
(d)(i)	Information about the financial position of the reporting entity.	Information about the assets acquired, liabilities assumed and consideration transferred to help users understand and evaluate the effect of business combinations on the entity's financial position.
(d)(ii)	Information about the financial performance of the reporting entity.	Information about the effect of business combinations on the entity's financial performance and cash flows.
(d)(iii)	Information about cash flows of the reporting entity.	
e)	Forward-looking information and information about events subsequent to the reporting date.	Information about the likely or possible transactions or events relating to (or as a consequence of) business combinations to help users understand their likely future effect on the entity's financial position, financial performance and cash flows.
f)	Information about management's stewardship of the entity's resources (and other relevant information).	Other information to help users understand and evaluate the effects of business combinations on the entity, including the efficient and effective use of the entity's resources.

Draft disclosure section for business combinations

9. Set out below is the redrafted disclosure section for IFRS 3 that could potentially replace the existing disclosure requirements for business combinations.

10. The main features of the redrafted disclosure section are that it:

    (a) is principles-based;

    (b) contains an overall disclosure objective;

(c) contains a section on the need for entities to exercise judgement in determining what ought to be disclosed;

(d) requires the disclosure of general information about business combinations to provide an indication of the relative importance of the effects of business combinations on the reporting entity and additional information depending on the relative importance of business combinations;

(e) contains sub-objectives to indicate what it is that disclosures are intended to achieve;

(f) includes examples of disclosures that are likely to meet the disclosure objectives; and

(g) uses permissive rather than prescriptive language.

Comparison with existing disclosure requirements

11. The redrafted disclosure section below appears shorter than the current disclosure requirements in IFRS 3. This is because of the inclusion of sub-objectives for particular groups of disclosures and examples of what information could be provided to meet those objectives, rather than detailed, prescriptive lists of disclosure requirements.

Redrafted disclosure section

IFRS 3 Business Combinations

Disclosure

Disclosure objective

1 **This Standard requires an entity to disclose sufficient relevant and representationally faithful information about business combinations to enable users of its financial statements to understand and evaluate the effect business combinations have on the financial position, financial performance and cash flows of the entity.**

Need for judgement

2 To achieve the disclosure objective, an entity uses its judgement to determine the extent and appropriate mix of quantitative and qualitative information to disclose, including the extent of aggregation or disaggregation of that information. Assessments about the amount of information to provide depends on the relative importance of the effects of business combinations on the entity. Assessments therefore should take into account the extent to which the entity’s financial position, financial performance or cash flows (and associated risks and uncertainties) are affected by business combinations during the reporting period.

3 In particular, an entity considers:

(a) how much emphasis to place on particular disclosures;

(b) the level of detail that is needed;

(c) how much aggregation or disaggregation to undertake;

(d) whether some of the information has already been disclosed, either in accordance with this Standard or another IFRS; and

(e) whether users of the financial statements need additional information, to meet the disclosure objective.

4 In using judgement to determine the information to be disclosed in accordance with this Standard, an entity considers factors such as the nature and size of amounts, transactions or events (and associated risks and uncertainties) related to business combinations.

5 An entity aggregates or disaggregates disclosures in accordance with this Standard so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

Information for disclosure

General information

Relative importance of the effects of business combinations on the entity

6 Consistent with the disclosure objective in paragraph 1, an entity considers disclosing information about business combinations during the reporting period to provide an indication of the relative importance of the effects of business combinations on the entity. This information provides context that users need to be able to understand and evaluate the effect of business combinations on the entity's financial position, financial performance and cash flows. The type of information that is likely to be helpful to users could include:

(a) A description of the types of businesses acquired.

(b) A description of the reasons for undertaking the business combinations.

(c) A summary of the assets acquired and liabilities assumed, and the total consideration paid.

Additional information

7 Depending on the relative importance of the effects of business combinations on the entity, it may be necessary to disclose additional information about business combinations. The greater the effects of business combinations on an entity and the greater the amount of judgement involved in accounting for business combinations, the more information an entity is likely to provide. To achieve the disclosure objective, an entity uses its judgement and considers the factors in paragraphs 1–5 to determine the extent and appropriate mix of quantitative and qualitative information to disclose in accordance with paragraphs 8–13.

The effects of individual business combinations on the entity

8 Consistent with the disclosure objective in paragraph 1, an entity considers disclosing information about individual business combinations during the reporting period. The greater the effects of an individual business combination on the entity's financial position, financial performance and cash flows, the more likely it is that information about that business combination will be helpful to users of the entity's financial statements. The type of information that is likely to be helpful to users could include:

(a) A description of the acquiree, such as the name of the acquiree, the nature of the acquiree's business and the date of the acquisition.

(b) A description of the reasons for undertaking the business combination.

(c) The percentage of voting equity interests acquired and, if control was obtained other than as a consequence of voting equity interests acquired, a description of how control was obtained.

(d) A summary of the business combination, which could include:

 (i) the identifiable assets acquired and liabilities assumed at acquisition date by major class;

 (ii) the amount of any goodwill arising from acquisition;

(iii) a summary of the consideration transferred by each major class, such as cash, other tangible or intangible assets, liabilities incurred, and equity interests in the acquirer;

(iv) the amount of any non-controlling interest in the acquiree at acquisition date;

(v) the fair value of any equity interest in the acquiree held before the business combination; and

(vi) a summary of any gains or losses recognised in profit or loss at acquisition date arising from the business combination, such as a bargain purchase gain, acquisition costs expensed or a gain or loss on remeasurement of existing interests held immediately before the acquisition date.

Measurement bases and related uncertainties associated with business combinations

9 Consistent with the disclosure objective in paragraph 1, an entity considers disclosing information about the basis for measuring assets acquired, liabilities assumed, non-controlling interests in the acquiree and consideration transferred in business combinations during the reporting period and any associated uncertainties of that measurement. This information helps users understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination. The type of information that is likely to be helpful to users could include:

(a) The methods and assumptions used in determining the amounts recognised for business combinations at the acquisition date, such as the methods and assumptions used to measure the acquisition-date amounts of the assets acquired, liabilities assumed, the consideration transferred (including equity interests in the acquirer and any other non-cash consideration transferred) and non-controlling interests.

(b) Whether the accounting for a business combination has been determined on a provisional basis and, if so, the factors that could result in changes to the accounting and the assets, liabilities and equity interests or items of consideration for which the initial accounting is incomplete.

(c) The methods and assumptions used in assessing goodwill and other intangible assets for impairment.

Changes in key risks associated with businesses acquired

10 Consistent with the disclosure objective in paragraph 1, an entity considers disclosing information relating to changes in key risks associated with businesses acquired. Users need information about the nature and extent of changes in those key risks to understand and evaluate how they might affect the entity's financial position, financial performance and cash flows. The type of information that is likely to be helpful to users could include:

(a) A description of the nature and extent of changes in key risks to which the entity is exposed at the reporting date as a consequence of business combinations during the reporting period and a description of any changes to the entity's objectives and policies for managing any such risks.

(b) A description of the types and classes of intangible assets recognised as a result of the business combination.

(c) The reasons for intangible assets being considered to have indefinite useful lives.

(d) A description of contingent liabilities assumed.

(e) A description of the terms and conditions of contingent consideration transferrable or indemnification assets recognised.

Changes in financial position, financial performance and cash flows arising from businesses combinations

11 Consistent with the disclosure objective in paragraph 1 and in addition to the information provided in accordance with paragraphs 6 and 8, an entity considers disclosing information about other effects of business combinations on the entity. This information helps users to understand how business combinations during the current or previous reporting period have affected the entity's financial position, financial performance or cash flows. The type of information that is likely to be helpful to users could include:

(a) The contribution of businesses acquired during the period to the performance of the acquirer.

(b) Gains or losses arising from the remeasurement of contingent consideration that are not measurement period adjustments.

(c) Where the initial accounting for a prior period business combination was incomplete at the end of the last reporting period, adjustments to amounts previously recognised.

(d) The amount of, and reasons for, impairment of goodwill and other intangible assets with indefinite useful lives.

(e) Information about transactions recognised separately from business combinations, such as a description of such transactions and the amounts recognised.

Future transactions or events related to or arising from business combinations

12 Consistent with the disclosure objective in paragraph 1, an entity considers disclosing information about likely or possible future transactions or events relating to (or arising from) businesses acquired. This information is useful for understanding and evaluating the likely future effect of such transactions or events on the entity's financial position, financial performance and cash flows. The type of information that is likely to be helpful to users could include:

(a) Assets or components of businesses acquired during the period intended for resale.

(b) Assets or components of businesses acquired during the period intended not to be used.

(c) Descriptions of plans for any restructuring of businesses acquired during the period.

(d) For contingent consideration arrangements and indemnification assets, information about the range of outcomes of any such arrangements.

Other information about business combinations

13 Consistent with the objective in paragraph 1, the entity considers disclosing other information that helps users to understand and evaluate the effects of business combinations, including information relating to the efficient and effective use of the entity's resources. The type of information that is likely to be helpful to users could include a description of the reasons for gains recognised in a bargain purchase.

Comparison of feedback on disclosure requirements of IFRS 3 in response to the IASB's post-implementation review of IFRS 3 with the draft disclosure requirements

12. The September 2014 IASB agenda paper 12F contained a summary of the comments received in response to the IASB's Request for Information *Post-implementation Review: IFRS 3 Business Combinations*. In particular, paragraphs 81 to 95 of that agenda paper summarised:

    (a) the information that users considered necessary for a proper understanding of the effect of a business acquisition on a group;

(b) amendments to existing requirements that could improve understandably of the information disclosed;

(c) information that is currently required to be disclosed but that is not useful and should not be required; and

(d) the main challenges in complying with disclosure requirements.

Set out in Table 2 below is a comparison of comments received with the draft disclosure section above.

13. We have used comments regarding the current disclosure requirements in IFRS 3 received in response to the IASB's Request for Information to develop some of the examples of potential disclosures listed in the redrafted disclosure section for IFRS 3. However, at this stage we are not seeking feedback on the specific examples. Therefore, the comparison below is provided for information purposes only.

Table 2: Comparison of feedback on IFRS 3 disclosures requirements with potential requirements for disclosure

Feedback	**Addressed by potential disclosures?**	**Explanation**
Information that is necessary for a proper understanding of the effect of business acquisitions		
Up to the end of the first full year after the acquisition, the contribution of the acquiree to revenue, gross profit and/or operating profit (12F p. 81).	Yes	This sort of information has been identified in paragraphs 11(a) of the draft disclosure section as information that may need to be disclosed.
The operating performance of the acquired business, specifically, revenue and operating profit over preceding periods and pro-forma prior year comparative information for the combined entity for purposes of their trend analysis (12F p. 82, 95(c)).	No	This sort of information has not been identified for potential disclosure because it is not required to explain changes as a result of business combinations during the period and relates to the previous owner, not the reporting entity. However, preparers could choose to disclose this information if they considered this disclosure necessary to meet the disclosure objectives.

Feedback	Addressed by potential disclosures?	Explanation
The total consideration paid including cash paid, cash acquired, debts and pensions liabilities assumed, fees and restricting costs, shares and notes issue to the vendor together with any deferred consideration (12F p. 83).	Yes	This sort of information has been identified in paragraphs 6(c) and 8(d)(iii) of the draft disclosure section as information that may need to be disclosed.
The inputs and methodologies used to measure the fair value of the acquired assets and liabilities – such as the information required by IFRS 13 *Fair Value Measurements* (12F p 84).	Yes	This sort of information has been identified in paragraph 9(a) of the draft disclosure section as information that may need to be disclosed.
Progress (amounts and timing) towards achieving expected cost savings and the related spending on restructuring (12F p. 85).	No	This sort of information has not been identified for potential disclosure as it is probably best placed within management commentary. However, preparers could choose to disclose this information if they considered this disclosure necessary to meet the disclosure objectives.
The acquiree's carrying amount of the assets acquired and the liabilities assumed by the acquirer at the acquisition date and any fair value adjustments to these amounts (12F p. 86).	No	This sort of information has not been identified for potential disclosure as it is not relevant to the reporting entity.
Higher quality information about the primary reasons for business combinations (12F p. 87).	Yes	This sort of information has been identified in paragraphs 6(b) and 8(b) of the draft disclosure section as information that may need to be disclosed.
Higher quality disclosures in interim reports (12F p. 88).	No	A review of the disclosure requirements in IAS 34 *Interim Financial Reporting* is beyond the scope of this memo.

Feedback	Addressed by potential disclosures?	Explanation
The nature of the intangible assets recognised as a result of a business combination (12F p. 90(a)).	Yes	This sort of information has been identified in paragraphs 6(c), 8(d)(i) and 10(b) of the draft disclosure section as information that may need to be disclosed.
The criteria and rationale used by management when identifying and separating intangibles from goodwill (12F p. 90(b)).	No	This sort of information has not been identified for potential disclosure because the reporting entity should be applying IFRS 3 and, therefore, should be applying the methodology prescribed in IFRS 3. However, preparers could choose to disclose this information if they considered this disclosure necessary to meet the disclosure objectives.
Information that is currently required to be disclosed but that is not useful and that should not be required		
It is difficult to disclose information about the impact of acquisitions made after the reporting date, but before the financial statements are authorised (12F p. 92(a)).	Yes	This sort of information has not been identified for potential disclosure as disclosure of this sort of information is probably best addressed through a review of IAS 10 *Events after the Reporting Period*.
The qualitative descriptions of goodwill disclosed are often generic (12F p. 92(b), 95(a)).	Yes	This sort of information has not been identified for potential disclosure.
Main challenges in complying with disclosure requirements		
Some entities do not disclose how they measure non-controlling interest (12F p. 95(b)).	Yes	This sort of information has been identified in paragraph 9(a) of the draft disclosure section as information that may need to be disclosed.

Feedback	Addressed by potential disclosures?	Explanation
Entities do not provide sufficient information about what is recognised within ‘other intangible assets’ even though significant proportions of the purchase price may be allocated to this ‘class’ (12F p. 95(c)).	Yes	Information about the types and classes of intangible assets acquired may need to be disclosed as identified in paragraphs 6(c), 8(d)(i) and 10(b) of the draft disclosure section.
Amendments to existing requirements that could improve understandably of the information disclosed		
All relevant disclosures should be required to be presented in one place (12F p. 89).	Partly	The draft disclosure section does not include a requirement that all relevant information be presented in one place. However, it has been suggested that preparers should have flexibility in determining how information should be presented to maximise its usefulness and understandability (paragraphs 3 to 5 of agenda item 11I). Also, the recent amendments to IAS 1 seek to allow preparers more flexibility.
Disclosure of the fair value, the gross contractual amount and the best estimate of collection for all classes of receivables (IFRS 3 p. B64(h)) should be required only if it is important for understanding the business acquired (12F p. 93).	Yes	This sort of information has not been identified for potential disclosure. However, preparers could choose to disclose this information if they considered this disclosure necessary to meet the disclosure objectives.
Some relief should be granted from the requirements to disclose revenue and profit or loss of the combined entity for the current period as though the acquisition had occurred at the beginning of the reporting period because it is difficult to obtain the required information (12F p. 91, 94).	Yes	This sort of information has not been identified for potential disclosure. Preparers can decide whether or not disclosure of this sort of information is necessary to meet the disclosure objectives.

Feedback	Addressed by potential disclosures?	Explanation
The option to measure non-controlling interests at fair value should be removed. Few entities state that they measure non-controlling interest at fair value indicating that the option is not popular (12F p. 95(b)).	No	A review of the measurement of non-controlling interests is beyond the scope of this project.