

July 15, 2024

Mr. Andreas Barckow, Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London, E14 4HD
United Kingdom

Dear Mr. Barckow,

RE: Invitation to Comment - Business Combinations - Disclosures, Goodwill and Impairment Exposure Draft (ED/2024/1)

The Canadian Bankers Association (“CBA”)¹ would like to thank the International Accounting Standards Board (“IASB” or the “Board”) for the opportunity to comment on the *Business Combinations—Disclosures, Goodwill and Impairment* Exposure Draft (the “ED”). We understand that the Board is publishing this ED to seek the views of stakeholders on its proposals for amended disclosure requirements on business combinations, goodwill and impairment, in order to provide users with more useful information about business combinations at a reasonable cost. In particular, we appreciate the Board’s proposals to improve the goodwill impairment testing process by permitting the inclusion of cash flows from future restructurings and the use of after-tax discount rates, which will reduce the cost and complexity of preparing key assumptions for the value-in-use calculation.

In this letter, we highlight our support for certain of the IASB proposals as well as indicate our key areas of concern and recommendations to address them. As such, we have not provided individual responses to the consultation questions in the ED, as we believe our comments contained herein (which reference the questions) address them.

Executive Summary—Key Themes

We urge the Board to reconsider its proposal to require disclosure on the key objectives and targets of strategic business combinations and on the expected synergies in the year of acquisition, especially if the disclosures are commercially sensitive and not practical to apply. We are also concerned that while these disclosures may be relevant to users, the information disclosed will not be sufficiently reliable to be useful, due to the significant judgment, estimates and assumptions involved. Extending from this, we believe that the requirement to provide information about the expected benefits of strategic acquisitions is a form of future orientated financial information (FOFI) that should not be included in historical financial statements due to concerns about objectivity, quality of information, and auditability.

If the IASB moves forward with the disclosure requirements, we agree that the use of a threshold is useful to limit the application to the most material acquisitions, although we believe that the threshold should be increased to focus on truly strategic acquisitions. We also request more guidance and illustrative examples on the application of the qualitative criteria. As well, we believe that the exemption criteria should be broadened to better protect information that is confidential and/or sensitive either commercially or from a regulatory perspective (e.g., competition). We also suggest that the targets disclosed should be limited to targets that are financial measures calculated pursuant to IFRS or easily reconciled to IFRS. We have included recommendations below with respect to these points to increase the practical application of the requirements.

¹ The CBA is the voice of more than 60 domestic and foreign banks that help drive Canada’s economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals. www.cba.ca.

With respect to the proposed changes to the impairment test, we do not believe that the concerns on shielding in goodwill impairment testing should be addressed by amending the guidance for allocating goodwill to cash generating units (CGUs), as this proposed approach may not be feasible or necessarily provide more relevant information for legacy acquisitions and may require restructuring internal management reporting to align with the new definitions, adding further costs and complexity.

We also suggest that the Board reconsider addressing the concerns on the continuous monitoring of the measurement of goodwill through an accounting requirement to amortize goodwill over a specified period of time as a more practical alternative to complex and voluminous disclosure requirements.

IFRS 3 Disclosure Proposals

Disclosure of quantitative information about expected synergies

estimates and assumptions, and may produce information with limited usefulness and auditability. Information regarding business combinations, specifically acquisition-date key objectives and related targets, is also commercially sensitive in many cases. Including such information could provide other potential acquirers or competitors with insight into how an entity prices strategic acquisitions. Disclosure of targets supported by expected expense synergies would provide undue insight into an entity's internal cost structure, and disclosure of targets supported by expected revenue synergies would provide undue insight into an entity's client acquisition and retention strategies. It is unclear whether the exemption would in practice limit the disclosure of this information. Even if the confidential nature of this information results in the application of the exemption, this would involve additional cost for preparers to prove that the exemption is applicable, with limited resulting benefit to users.

The determination of the targets may also not be possible when the acquired business is subject to high levels of integration with the purchaser. Many acquisitions are fully or partially integrated with an existing business and monitored by management at the level of the combined business, up to and including at the operating segment level. To the extent that the existing business is significantly larger than the acquisition, or the nature and risks of the existing and acquired business differ, the results of the combined business may not provide a useful metric for assessing the subsequent performance of an acquisition. In addition, some of the requested details to be disclosed would require forward-looking estimates that are highly judgmental and therefore more complex for an auditor to verify, increasing the cost of providing these disclosures.

Although the proposed disclosure is subject to an exemption, the determination of whether the exemption can be applied requires significant judgment and may also pose a challenge for auditors to verify whether the exemption has been appropriately applied. The proposed exemption is also too narrow in scope to address the concerns noted above with respect to confidentiality and the sensitivity of the information due to commercial or regulatory considerations. Please see the "Exemption from Disclosing Information" section below for additional commentary on the exemption.

We suggest that the quantitative disclosures on expected and actual performance be replaced with additional qualitative disclosure requirements on the potential risks and opportunities associated with the acquisition, and the extent to which those are being achieved post-combination. This would provide users with insight into the effectiveness of the entity's acquisition and how it aligns with the acquirer's strategy, while balancing the costs and risks of disclosing forward-looking and commercially sensitive information.

If the quantitative disclosure requirements are retained, we recommend that the key objectives and targets be disclosed at a greater level of aggregation, such as for the combined entity post-acquisition, to better align with other reporting of the entity and protect information that is confidential and/or sensitive commercially or from a regulatory perspective (e.g., competition). We also recommend that the targets disclosed be limited to targets that are financial measures calculated pursuant to IFRS or measures readily reconcilable to IFRS. The targets reviewed by management may encompass both non-GAAP measures and non-financial metrics (e.g., those related to ESG objectives, such as greenhouse gas (GHG) emissions). Incorporating the actual performance on these non-financial or non-GAAP measures into financial statement disclosures would subject them to reasonable assurance, and therefore require the development of additional processes and controls, increasing the cost of providing such non-financial and non-GAAP disclosures relative to other materials in which an entity would more typically publish them (such as investor relations materials). In addition, the inclusion of non-GAAP measures may also create additional disclosure requirements under securities regulation.

In addition, if these requirements are retained, we suggest that the Board consider leveraging this disclosure to reduce the burden of impairment testing. In particular, we recommend that a full impairment test not be required for goodwill arising in business combinations, whether strategic or not, in the annual

appropriate models and processes while also preparing the acquisition-date disclosures. For strategic business combinations, users would be able to look to the additional disclosures, while for other acquisitions the cost savings of not performing the testing would outweigh any informational benefits of a full impairment test where there are no indicators of impairment.

Thresholds for disclosure of strategic business combinations (Question #2)

To the extent the disclosure requirements are retained, we agree that they should only apply to a subset of material business combinations, and that those of strategic significance are the appropriate population. We also agree that the use of a threshold approach to define the population is important because many observers believe that most acquisitions are strategic, regardless of size (i.e., in the absence of a threshold, all acquisitions could be captured in the definition of “strategic business combinations”).

We recommend that the Board significantly increase the quantitative threshold to better reflect the materiality of a strategic acquisition. Paragraph IFRS 3.BC54, in the Basis for Conclusions, explains that a strategic business combination is to be interpreted as one where the failure to meet any of the entity’s acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy. A threshold of 10% does not appear to be commensurate with this level of potential risk to an entity’s overall strategy. We would instead propose a higher threshold, such as 20%, which is within the range of 5% to 30% noted in IFRS 3.BC67 that the Board observed in its research into the thresholds in local regulations. We do not believe that it is necessary to align to the 10% threshold in IFRS 8 given the wide range of quantitative thresholds applied by regulators, with 30% being the Canadian Securities Administrators’ (CSA) threshold for “significant acquisitions”, which is the trigger for filing additional reporting on the acquired business and the impact of the acquisition on the acquirer in the form of a “Business Acquisition Report” (BAR). This 30% threshold is applied in the income, asset, and investment test, with a BAR required if any two of the three tests are met. Of note, in 2020, following public consultation, the CSA increased this threshold from 20% to 30% for reporting issuers that are not ventures issuers, specifically to address the regulatory burden on reporting issuers.

With respect to the qualitative threshold, we encourage the Board to provide additional application guidance for the assessment of the qualitative threshold in terms of how to identify a major/material new line of business or geographical area.

entities' non-GAAP measures, impairment losses may already be treated as adjusting items under the impairment-only model.

Transition (Question #9)

We agree with the Board's proposal to apply the amendments to IFRS 3 and IAS 36 prospectively from the effective date without restating comparative information, as this is a more relevant and practical way of implementing these requirements.

In addition, as discussed above, to the extent that the proposed amendments to IAS 36.80-83 proceed, we recommend that the Board specify that the amended allocation of goodwill to CGUs would only apply as of the first full annual impairment test following the effective date of the amendments.

Thank you for considering our comments. We would be pleased to discuss our response at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to be "D. A. L.", is written above a horizontal line. The signature is stylized and somewhat cursive.