FINANCE FINLAND

Rehn Teija

International Accounting Standards Board

IFRS Accounting Standard
Exposure Draft Business Combinations - Disclosures, Goodwill and Impairment
Proposed amendments to IFRS 3 and IAS 36

Finance Finland supports IASB's object but suggests revising some issues

Finance Finland (FFI), a representative of the Finnish financial sector, welcomes the opportunity to comment IASB's Exposure Draft Business Combinations-Disclosures, Goodwill and Impairment. Please see below comments to the Exposure Draft's questions.

- FFI supports the IASB's objective to provide users with more useful information at a reasonable cost about business combinations but suggests some changes to the proposed disclosure requirements detailed in the paragraphs below. Preparing some of the information only for disclosure purposes would add significant cost that is expected to exceed the increase in usefulness of external reporting.

- FFI supports the split into strategic and other business combinations but believes that the thresholds defining strategic business combinations based on the operating profit or loss, or revenue should reflect a longer period than one year due to volatility in operating profit and revenue.

- FFI assesses that if management is defined as CODM (Chief Operating Decision Maker), it would 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.

- FFI also believes that performance evaluation of a business combination along with other performance evaluations would be more appropriate in management commentary outside the audited financial statements.

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

FFI believes 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 and may not resolve shortcomings in IAS 36 related to goodwill impairment testing.

Irrespective of geography of disclosures FFI supports the split into strategic and other business combinations and that the disclosure requirements are more limited for other business combinations.

FFI sees 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. Therefore, the simplification in B67B to be applied if such information is not available is welcomed. 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.

FFI believes that the requirement in B64(ea) covering the disclosure of expected synergies should be applied only for strategic business combinations. We propose that the disclosure requirement in B64(ea) is transferred to B67A and that it is covered by the exception in B67B.

Question 2 – Disclosures: Strategic business combinations (proposed paragraph B67 of IFRS 3)

FFI agrees 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.

FFI also proposes to clarify whether both B67C(a) and (b) relating to the quantitative thresholds must be fulfilled in order to meet the strategic business combination trigger.

FFI furthermore believes 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 consider 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”.

FFI suggests 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.

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

FFI supports 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.

FFI proposes that it is explicitly stated in the standard that disclosures can be excluded due to commercial sensitivity, confidentiality or any legal restrictions.

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

FFI sees 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 therefore welcome the requirement to provide the disclosure only if reviewed by management. FFI moreover supports the requirement to disclose information that has been reviewed by management but suggest that B67A should refer to only providing information that is material to avoid disclosure overload.

FFI assesses if management is defined as the CODM it would 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.

FFI supports 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. FFI also proposes to add to B67B that the review of the actual performance must include adequately controlled quantitative data to trigger quantitative disclosure.

FFI in addition proposes 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 many years ago may no longer be considered strategic although still included in regular reporting to management.

Question 5 – Disclosures: Other proposals

FFI agrees with these proposals, with the important exception in relation to the proposed requirements in B64(ea) about expected synergies. FFI believes 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) a of IAS 36

FFI believes 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. It is generally supportable 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. Therefore, paragraphs 80B and 83(b) are not supported. It 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. Some members normally build processes to assess financial performance on the level of the reporting to the CODM and find it appropriate to align also impairment testing requirements to the performance of operating segments to which the goodwill has been allocated.

FFI supports the amendment to paragraph 134(a) for what concerns disclosure of reportable segments that contain the CGU (Cash Generating Units) goodwill.

Question 7 – Changes to the impairment test: Value in use (paragraphs 33, 44-51, 51 130(g), 134(d)(v) and A20 of IAS 36

FFI agrees 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 of the operations impacting the future forecasts and as the impairment test is based on projections, FFI sees no reason for not including cash flows from planned restructurings that are included in an entity's projections, both in- and outflows.

FFI supports 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.

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

FFI has 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 IAS36 and proposed paragraph B2 of the Subsidiaries Standard)

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

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