

July 11, 2024

IFRS Foundation
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By E-mail: commentletters@ifrs.org

Re: IASB Exposure Draft—Business Combinations—Disclosures, Goodwill and Impairment: Proposed amendments to IFRS 3 and IAS 36

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 19,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned proposed regulations.

The NYSSCPA's International Accounting and Auditing Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Richard Jones at 516-463-6990, or Keith Lazarus, NYSSCPA staff, at 212-719-8378.

Sincerely,

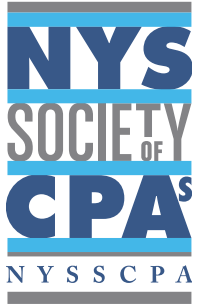
NYSSCPA

A handwritten signature in black ink, appearing to read "Kevin O'Leary", written over a horizontal line.

NYSSCPA

Kevin O'Leary
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**IASB EXPOSURE DRAFT—BUSINESS COMBINATIONS—DISCLOSURES,
GOODWILL AND IMPAIRMENT: PROPOSED AMENDMENTS TO IFRS 3 AND IAS
36**

July 11, 2024

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New York State Society of Certified Public Accountants

Comments on

IASB Exposure Draft—Business Combinations—Disclosures, Goodwill and Impairment: Proposed amendments to IFRS 3 and IAS 36

The NYSSCPA welcomes the opportunity to provide comments on IASB Exposure Draft, *Business Combinations-Disclosures, Goodwill, and Impairment*.

NYSSCPA General Comments

In general, the Society supports the exposure draft's (ED) stated objectives, which are:

- Providing users with more useful information regarding the success of recent significant business combinations and
- Addressing concerns about the cost, complexity, and timing of the goodwill impairment test and loss recognition, when applicable.

Overall, we agree with the proposed disclosures regarding the success of a business combination, including identifying “strategic” business combinations for which disclosures are required and establishing criteria for exempting entities from disclosing information under certain specified conditions.

Additionally, we believe the recommended disclosures regarding performance of strategic business combinations should be reported “outside of” the disclosures associated with the primary financial statements, such as in a Management Commentary section of an entity's annual report. We note the IASB is in later stages of revising IFRS Practice Statement 1, *Management Commentary*. We believe the performance disclosures proposed in the ED should be considered as an addition to the application guidance contained in Practice Statement 1.

Further, regarding addressing the complexity of the goodwill impairment determination, we believe:

- Concern over the timing of impairments is largely inconsequential to users as most users should already be considering other business factors in their risk assessments as lenders, suppliers, or investors, such as changes in working capital and operating losses. Those factors should be considered as early warning signs of potential impairments, and we would support aligning these disclosures with segment reporting guidance;
- The IASB, FASB, and other national standard-setters must continue to discuss their different goodwill impairment and reporting requirements and work towards better alignment and convergence of such requirements, particularly regarding the timing, recognition, and measurement of a goodwill impairment loss.

Our responses to the specific questions directed to respondents follows below.

NYSSCPA Specific Comments

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.

Response: We agree with the IASB's objective of providing users with more information about the performance of a business combination at a reasonable cost. Further, we believe, consistent with the comments in ¶s BC 132-134 of the Basis of Conclusions, that such disclosures do not address specific recognition and measurement issues associated with amounts reported in the historical financial statements.

However, we do not support including the proposed disclosures within the primary financial statements and related footnote disclosures. Instead, we believe the proposed disclosures should be reported in a separate section, such as a section designated for management commentary, that

is outside the section containing the historical financial statements and related financial statement disclosures.

- b) If you disagree with the proposal, what specific changes would you suggest providing users with more useful information about the performance of a business combination at a reasonable cost?

Response: As mentioned above, while we support the basic notion of the proposed disclosures, i.e., providing financial statement users additional relevant information about specific business combinations, we do not support the proposed disclosure location, as we believe discussions about strategic purpose are forward-looking and express management's views, which will be biased in favor of their goals and expectations.

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?

Response: Yes, we support establishing threshold criteria for entities to apply when considering business combinations that are “strategic” and, therefore, qualify for reporting in accordance with the final disclosure guidance.

- 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?

Response: Yes, we agree with the proposed “close list” approach of setting specific criteria for what constitutes a strategic business combination as such an approach should result in consistent reporting among reporting entities, and within reporting entities, from period to period.

Further, we support the Board’s proposed approach establishing quantitative and qualitative threshold criteria.

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 to apply 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.

Response: Yes, we agree the final standard should include criteria exempting entities from disclosing information under certain specified conditions, and we support including guidance explaining how the exemption criteria would be applied in practice.

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.

Response: It is not clear the criteria for exemption would “help restrict the application of the exemption,” as described.

We believe, if the IASB intends to restrict the application of the exemption, they should reconsider including a comment in the final guidance expressing that expectation, such as the comment noted in ¶BC92 that the Board “expects the application of the exemption to be extremely rare” or similar language, as appropriate.

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?

Response: Yes, we agree that the information an entity would be required to disclose should be the information reviewed by the entity’s key management personnel.

Additionally, we support establishing a specific “core time period” over which an entity would be expected to provide the required disclosures. An entity would be required to provide such disclosures over a specific time period, say 3-years subsequent to the acquisition date of a business combination, subject to criteria explaining the disclosure requirements when the entity’s key management personnel discontinue reviewing the acquisition-date objectives of and related targets for that business combination.

Entities that argue that they have not established acquisition-date key objectives and/or related targets or do not review such objectives and targets would be subject to the final standard’s

exemption provisions, including explaining their reasons for not providing the related disclosures. The concern is that these provided disclosures would be derivative at best as the real underlying reasons may be considered too sensitive to disclose.

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?

Response: We believe financial statement users would benefit from reviewing disclosures about the performance of a strategic business combination and related targets starting from the initial reporting date after closing of such business combinations.

Further, we believe when key management personnel discontinue reviewing reports and key metrics regarding the performance and related targets of a strategic business combination, they are signaling that such information is no longer relevant to their continuing evaluation of the success of the business combination. Therefore, we support discontinuing disclosure about information on the performance and related targets of a strategic business combination when management has discontinued reviewing the related reports and key metrics associated with the strategic business combination.

- 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?

Response: As noted in our comments to Question 4a), we believe entities enter into strategic business combinations with specific objectives in mind, whether stated or unstated. Therefore, we support guidance that assumes that such performance expectations and related targets exist, and management will establish internal reporting that provides an assessment of the performance of the strategic business combination relative to management's objectives for entering into that transaction.

Sometimes such reporting is informal, i.e., for example, key management personnel might meet with a regional business manager to discuss performance of the overall region relative to the annual business plan or budget and, during such discussions, key management personnel might inquire about the performance of a strategic business acquisition that was incorporated into the region under the regional business manager's responsibility. Over time, in preparing for those informal discussions, regional business managers will develop informal reports that include performance metrics and targets, regarding the performance of the strategic business combination so that they are prepared to respond to key management personnel inquiries.

Thus, we believe, in most cases, entities will establish internal reports detailing, or at least summarizing, the performance and related performance metrics, for strategic business combinations to be responsive to related internal inquiries.

Further, we agree with proposed disclosure requirements regarding when an entity's key business manager discontinues reviewing whether an acquisition-date key objectives and related targets are met:

1. "Before the end of the second annual reporting period after the year of acquisition" and/or
2. "But still receive information about the metric that was originally used to measure the achievement of that key objective and the related targets."

However, we believe the Board should provide a single set of disclosures that will be required when an entity's key business managers discontinue reviewing the performance and related targets for a key business acquisition rather than specifying a series of required disclosures in different situations. A key consideration in developing a single set of disclosures covering all situations would be to eliminate the proposed disclosure in ¶BC123 requiring an entity "to disclose information about actual performance using the metric set out in the year of acquisition if (and only if) information about the business combination's subsequent performance measured using that metric is still being received by the entity's management in a different context."

We believe that management either relies on performance information or they do not. Once management discontinues relying on specific performance information, we typically remove it from their reports; however, whether the information is removed or it continues to be reported, if management does not rely on that information, we believe the entity should discontinue the required disclosures.

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 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?

Response: As noted in our response to Question 1, while we agree with the objective of improving the information provided to financial statement users about an entity’s strategic business combinations, we believe that the characteristics of most of the proposed disclosures are inconsistent with the recognition and measurement characteristics associated with reporting in the primary financial statements.

Therefore, we support reporting the proposed disclosures outside the primary financial statements, e.g., in a management commentary report.

Given that observation, we do not support amending IFRS 3 except to ensure consistency with the final proposed disclosures. However, we agree that, as a result of the disclosures proposed, IFRS 3 will have to be amended to remove duplicate disclosures that will no longer be necessary. So, for example, we agree that ¶60 of IFRS 3 should be deleted and revised ¶61 should be added. However, we believe that ¶s 62A and 62B and the related application guidance should be reported, as mentioned above, outside the primary financial statements *and related 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 cash generating units containing goodwill results in impairment losses sometimes being recognized 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 cash generating 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 cash generating 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?

Response: We agree that the proposed changes will simplify the allocation of goodwill to cash-generating units and should reduce shielding.

Additionally, we anticipate that preparers will agree that the revised approach will clarify the proper cash- generating unit(s) to which they should allocate goodwill; however, we are concerned that the discussion is confusing and would not result in a change in the allocation of goodwill, particularly ¶83(b) which infers that in certain circumstances the allocation of goodwill to cash-generating units remains consistent with the extant approach, because it says:

“A cash generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with:...

- b) The level at which key management personnel ... review a business combination's performance as described in paragraphs B67A-B67B of IFRS 3 Business Combinations...However, if financial information management uses to monitor the business is available at a level lower than the operating segment that contains some (or all) cash-generating units expected to benefit

from the synergies of the combination, the entity would test for impairment some (or all) of the associated goodwill at this lower level. [Emphasis added]”

Where the guidance infers that the allocation will remain consistent with the extant approach, we anticipate that preparers will not view the revision as a change. (Note: If our interpretation of the above guidance is inconsistent with its intent, we ask that the Board further clarify the amendment, particularly for preparers.)

Lastly, we agree with the IASB’s view that disclosing the reportable segment in which a cash-generating unit containing goodwill is included will:

1. Help users assess the reasonableness of an entity’s assumptions used in performing their goodwill impairment tests,
2. Not result in significant preparer costs, and
3. Provide users with information that could help them assess management’s decision to acquire a business and the performance of that acquired business when integrated with the acquirer’s other businesses.

Further, we are not certain that additional disclosure requirements will result in an earlier or more timely recognition of impairments. The decision making around impairment recognition is already embedded in the financial statements and audit processes. These processes include management’s thinking and assessment of the related goodwill. After management has taken its position on whether or not an impairment should be recognized, the auditor’s will typically perform a stress test to determine the reasonableness of management’s assumptions, including a review of available forecasts and capital investment impacts. This should already serve as a counter-weight to concerns of optimistic forward-looking projections.

We also believe that the timing of non-cash impacts of recognizing an impairment, in the Statement of Operations and Cash Flows, is largely inconsequential to users, as these intangibles are already considered in most users’ assessment of the strength of an entity. Users, such as investors or suppliers, would normally look at other factors such as changes in working capital and operational income or losses when determining their related risks.

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?
- 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?

Response: We agree with the proposed amendments to IAS 36 regarding how an entity calculates value in use provided the assumptions used in the computation are consistent with those used by key management personnel in assessing the performance of the cost generating unit in which the goodwill is allocated.

Additionally, we recommend requiring entities to disclose key assumptions used for their value in use calculation, such as, the discount rate applied, whether they used a pre-tax or post-tax cash flow approach, and any changes to the calculation from the most recent prior disclosure.

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 pre-tax or post-tax (paragraph 193 of the Subsidiaries Standard).

See paragraphs BC252–BC256.

Do you agree with the proposals? Why or why not?

Response: We agree with the proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures. We believe that amending the IFRS X to require the proposed disclosures is consistent with the principles discussed in BOC ¶BC253 and would be informative to the related financial statements users.

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.

Response: For reasons discussed in ¶s BC257-BC263 of the Basis of Conclusions of the proposal, we agree with the transition provisions, which require an entity to apply the proposed amendments prospectively with early application permitted without specific relief for first time adopters of the final requirements or amendments.