

12 July 2024

Mr. Andreas Barckow  
Chair  
International Accounting Standards Board

**Re: Exposure Draft “Business Combinations—  
Disclosures, Goodwill and Impairment”**

Dear Mr. Barckow,

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (hereinafter referred to as the “ED”) published on 14 March 2024.

The SAAJ is a not-for-profit organization for professionals in the areas of investment and finance, offering education and certification programs in these fields. Its certified member analysts (holding the CMA designation) number around 29,000.

The CAC is a standing committee of the SAAJ composed of 11 members, most of whom are users of financial statements including equity and credit analysts, portfolio managers, and academics.

The SAAJ sent a questionnaire survey on the ED to members of the CAC and CMAs, of which 17 responded. This comment letter is based on the ED questionnaire results and the discussions among members of the CAC. Please see the attached questionnaire results.

**General Comments**

In our comment letter on the IASB’s Discussion Paper *Business Combinations –Disclosure, Goodwill and Impairment* published in 2020, we advocated the reintroduction of goodwill amortization as a way to address the “too late” issue. The reintroduction of goodwill amortization was supported by quite a few stakeholders, including us. However, the IASB concluded that it had no compelling case to justify reintroducing amortization of goodwill and so decided to retain the impairment-only model for the subsequent accounting for goodwill.

As goodwill accumulates and economic uncertainty increases, the “too late” issue is not limited to individual companies, but could have an even greater impact on the overall economy and the financial system through increased stock market volatility and procyclicality. We still believe that, from the perspective of addressing the “too late” issue and faithfully representing the economic substance of a company, the reintroduction of goodwill amortization is the best approach.

That said, given that the impairment-only model is retained, we appreciate the IASB for proposing improved disclosure requirements for business combinations in the ED, as the next best approach to address the “too late” issue. We think that the improved disclosure requirements could address the “too late” issue effectively, albeit not perfectly, by enhancing corporate governance and the provision of information to users about business combinations.

However, with respect to the proposal to identify information to be disclosed in Question 4, we have strong concerns that the IASB’s proposal would substantially undermine the objective of enhancing corporate governance and the provision of information to users about business combinations.

In addition, we provide some suggestions for improving the IASB’s other proposals from the point of view of users.

Below are our comments on each question.

**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?

We agree with the proposal. In **Q1** of our questionnaire, 88.2% of respondents agreed.

In response to one of the proposals in Question 5, we agree with the following disclosure objectives added to paragraph 62A of IFRS 3:

- (a) the benefits an entity expects from a business combination when agreeing on the price to acquire a business; and
- (b) for a strategic business combination (see paragraph B67C), the extent to which the benefits an entity expects from the business combination are being obtained.

The disclosures related to (a) are important for users in assessing the appropriateness of the consideration for a material business combination. The disclosures related to (b) are important in assessing the success or failure of a strategic business combination.

The proposed disclosure requirement, "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)” has been voluntarily disclosed by some entities. By requiring this disclosure, users will be able to assess the appropriateness of the consideration for a material business combination and the success or failure of a strategic business combination for all entities. Since the additional costs to preparers would be limited by the threshold approach for strategic business combinations proposed in Question 2, the benefits to users would be greater. We also believe that mandatory disclosure would enhance the governance of an entity with respect to business combinations.

**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 basically agree with the proposal, but have suggestions for improvement. In **Q2** of our questionnaire, 35.3% of respondents agreed, 23.5% disagreed, and 41.2% neither agreed nor disagreed. However, after review by the CAC, we have concluded that we agree with the proposal with suggestions for improvement

We believe that limiting the disclosure of 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) to strategic business combinations (that is, a subset of material business combinations) and using a threshold approach to identify strategic business combinations would be a useful approach because it would encourage preparers to disclose all of the information that users need while limiting additional costs to preparers.

However, we have the following suggestions for improvement.

A threshold based on net assets should be added to the quantitative thresholds because the impact on net assets is important when users evaluate the financial soundness of an entity, such as the impact of goodwill impairment losses. For entities engaged in highly leveraged businesses, such as financial services and real estate, the proposed threshold based on total assets alone is not sufficient. We also believe that for relatively young entities with specialized technologies, the proposed thresholds based on operating profit, revenue and total assets alone are often not sufficient to identify strategic business combinations. On the other hand, there are entities with high profitability and aggressive shareholder returns that result in a negative carrying amount of net assets. Therefore, we encourage the ISSB to add a threshold based on net assets that the total amount of the goodwill and the intangible assets with indefinite useful lives recognized as a result of a business combination identified as strategic is 10% or more of the greater of (1) the carrying amount of the net assets recognized in the acquirer's consolidated statement of financial position as at the acquirer's most recent reporting period date before the acquisition date or (2) the market value of the acquirer's common stock as of the acquisition date. Intangible assets with indefinite useful lives should be added to goodwill because the impact of impairment losses on intangible assets would be the same as impairment losses on goodwill.

In situations where multiple acquisitions that do not exceed the threshold as a single acquisition are combined as a strategic business combination and the aggregate amount of those multiple acquisitions exceeds the threshold, the acquirer should disclose the aggregate amount of those multiple acquisitions.

The IASB proposes that a business combination should be considered strategic if it meets one of the quantitative or qualitative thresholds. Under this proposal, there could be strategic business combinations that are not disclosed because they do not meet the quantitative threshold for larger entities. Therefore, it should be emphasized that if a business combination does not meet the quantitative thresholds but meets the qualitative threshold, it must be disclosed as a strategic business combination. In addition, if an entity determines that a business combination does not qualify as strategic even though it meets the quantitative thresholds, the entity may be exempt from disclosure, provided that it discloses that fact and the reasonable basis for determining that fact.

**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 do not disagree with the proposal. In **Q3** of our questionnaire, 41.2%, less than half of the respondents, agreed, while 29.4% disagreed and 29.4% neither agreed nor disagreed.

As users, we are concerned that even if there were application guidance for exemptions to some disclosure requirements in certain circumstances, it would leave room for diverse interpretations and be abused by preparers. However, we do not have any effective suggestions to address this concern.

We, as users, do not disagree with the proposal because the proposed 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, and because it is consistent with the exemption provisions of the International Sustainability Standards Board (ISSB).

**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?

We disagree with the proposal. In **Q4** of our questionnaire, 64.7% of respondents agreed, 23.5% disagreed, and 11.8% neither agreed nor disagreed. However, after review at the CAC meeting, we have concluded that we disagree.

In our comment letter on the DP published by the IASB in 2020, we advocated the reintroduction of goodwill amortization as a way to address the “too late” issue. The reintroduction of goodwill amortization was supported by quite a few stakeholders, including us. However, the IASB concluded that it had no compelling case to justify reintroducing amortization of goodwill and so decided to retain the impairment-only model for the subsequent accounting for goodwill.

As goodwill accumulates and economic uncertainty increases, the “too late” issue is not limited to individual companies, but could have an even greater impact on the overall economy and the financial system through increased stock market volatility and procyclicality. We still believe that, from the perspective of addressing the “too late” issue and faithfully representing the economic substance of a company, the reintroduction of goodwill amortization is the best approach.

That said, given that the impairment-only model is retained, we appreciate the IASB for proposing improved disclosure requirements for business combinations in the ED, as the next best approach to address the “too late” issue. We think that the improved disclosure requirements could address the “too late” issue effectively, albeit not perfectly, by enhancing corporate governance and the provision of information to users about business combinations. Therefore, we are interested in whether improved disclosure requirements effectively enhance corporate governance and the provision of information to users.

In this regard, disclosure of information about the performance of the entity's strategic business combinations that is reviewed by its key management personnel would, in itself, effectively enhance the governance of the entity and the provision of information to users. However, we have strong concerns about the proposals pertaining to how this information is identified.



First, from a governance perspective, it cannot be assumed, as in paragraph B67B (a), that the acquirer's key management personnel have not started reviewing or do not plan to review the information about the performance of a strategic business combination.

Second, paragraph B67B (b) states that if the acquirer's key management personnel stop reviewing it before the end of the second annual reporting period after the year of the acquisition, the acquirer shall disclose that fact and the reason for doing so. Conversely, if the acquirer's key management personnel stop reviewing it after the third annual reporting period after the year of the acquisition, the acquirer would not be required to disclose that fact and the reason for doing so. We understand that this proposal reflects some business combination practices of acquirers. However, it would allow the key management personnel of the acquirer to arbitrarily choose not to disclose information about the performance of the entity's strategic business combinations by deciding that they have stopped reviewing it because they have changed the key objectives and related targets of the business combination after the third annual reporting period after the year of the acquisition. We are strongly concerned that this proposal would substantially undermine the objective of enhancing corporate governance and the provision of information to users about business combinations.

Generally, the key objectives and related targets of the business combination may be changed when the cash flow generation is significantly less than expected. Since such a case should result in an impairment of goodwill, the disclosure of the performance could be exempted only for that case.

With that in mind, we would like to make the following alternative proposal.

- (1) The acquirer shall disclose the subsequent performance for the life of the synergy, regardless of whether the key objective and related targets are changed.
- (2) In the case of a change in the key objectives and related targets without an impairment loss, the acquirer shall disclose the reasons for the change in the key objectives, a comparison of the old and new targets, and the subsequent performance.
- (3) In the case of a change with an impairment loss, the acquirer shall disclose an analysis of the reasons for not achieving the original targets and the new targets with their assumptions. If the residual goodwill becomes immaterial as a result of the impairment loss, disclosure of subsequent performance is not required.

Since our proposal above relates to disclosures about the performance of a new business segment resulting from a post-business combination restructuring, it would require amendments not only to IFRS 3 but also to the relevant provisions of IFRS 8 *Business Segments*.

### **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?

We basically agree with these proposals, but have suggestions for improvement. In **Q5** of our questionnaire, 94.1% of respondents agreed.

We agree with the *new disclosure objectives* as commented in Question 1.

Regarding the *requirements to disclose quantitative information about expected synergies in the year of acquisition*, it would be useful for users to have a three-part set of disclosures: (1) the amount of the synergies expected from the business combinations, (2) the costs required to achieve the synergies, and (3) the expected timing and duration of the synergies. We understand that some preparers insist that not all business combinations are subject to the rigorous analysis, calculations, estimates, etc., required by the proposal. However, we believe that disclosing the analysis, calculations, estimates, etc. required by the proposal regarding the expected synergies of the business combinations identified as strategic is necessary for an entity to meet not only its accountability but also its stewardship responsibilities. We also believe that these disclosure requirements would enhance the governance of an entity with respect to business combinations.

Meanwhile, users should consider that information about synergies, although important to them, may be difficult to audit and the reliability of the information cannot always be guaranteed because it depends on management’s subjective estimates based on projections of future cash flows.

Therefore, we propose that information about synergies be described outside the financial statements, such as in the management commentary that the auditor is required to read and consider, even if it is difficult to audit, and that a requirement be added to refer to such information in the notes to the financial statements. This proposal would ensure consistency between the financial statements (including the notes) and information outside the financial statements related to the business combination, while maintaining the verifiability of the financial statements. Since this proposal relates to the audit of financial statements, we believe that coordination with the International Organization of Securities Commissions (IOSCO), the International Auditing and Assurance Standards Board (IAASB), the International Federation of Accountants (IFAC) and other related organizations would be necessary. Thus, we believe that a new framework should be developed to address this challenge.

We encourage the IASB to develop educational materials so that users do not have excessive expectations regarding the quality and accuracy of the information on synergies to be described.

In addition to information about synergies, separately identifiable intangible assets should be appropriately recognized at the acquisition date based on the current standards. On that basis, an entity should disclose quantitative and qualitative information about the factors that make up the goodwill recognized in a business combination, such as synergies expected from the business combination, intangible assets that do not qualify for separate recognition, and other factors.<sup>1</sup> We believe that these requirements should be added to the standard.

The proposed additional requirement in the three-part set of disclosures: (1) the amount of the synergies expected from the business combinations, (2) the costs required to achieve the synergies, and (3) the expected timing and duration of the synergies, would support the view that goodwill is not only an asset with an indefinite useful life, but also an asset that will be consumed. Also, it would suggest that the amortization period can be estimated for some goodwill. Therefore, we believe that amortization could be introduced for certain synergies while, as mentioned above, information about synergies should be described outside the financial statements.

**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 recognised too late.

<sup>1</sup> This is referenced in *Recommendation 1 of 5.1 Recommendation Relating to Issuers in the “Recommendations on Accounting for Goodwill”* published by the IOSCO in December 2023. We agree with this recommendation.

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?

We basically agree with the proposals, but have suggestions for improvement. In **Q6** of our questionnaire, 70.6% of respondents agreed.

Clarifying how to allocate goodwill to cash-generating units (CGUs) and disclosing reportable segments that include a CGU or group of CGUs containing goodwill would provide more useful information to users. It would reduce shielding and management over-optimism since it would reduce the room for arbitrary manipulation by management and contribute to enhanced monitoring by users. Nonetheless, we believe that the effects would be limited because the shielding is inevitable in

impairment testing for goodwill, and even if monitoring by users is enhanced, it is unlikely to mitigate management over-optimism as much as regular amortization of goodwill.

We have the following suggestions for improvement.

It should be disclosed how the acquired business is (or is not) incorporated into the existing business at the acquisition date and, consequently, how the performance and cash flows of the acquired business are included in a CGU or group of CGUs of the acquirer so that users can understand them in connection with the financial statements and notes. The estimated future cash flows (including synergies), discount rates and growth rates for each CGU or group of CGUs containing goodwill as assumed at the acquisition date should then be disclosed, and the disclosure should continue with the same categorization for periods after the acquisition. This would enable users to confirm the subsequent performance and identify the indication of goodwill impairment.

The fact that a CGU or group of CGUs changes as a result of a business restructuring after a business combination should be disclosed. Since this proposal relates to disclosures about the performance of business segments, it would require amendments not only to IFRS 3 but also to the relevant provisions of IFRS 8 *Business Segments*.

We do not believe that the current disclosures regarding the assumptions used in goodwill impairment testing and the sensitivity of the estimate to changes in those assumptions are sufficient. Specific quantitative information regarding them should be disclosed to the extent practicable. In addition, there are many cases where the sensitivity analysis is not disclosed because the recoverable amount significantly exceeds the carrying amount. Even in those cases, the percentage of the excess should be disclosed.

We believe that the reintroduction of goodwill amortization is the best approach to address the “too late” issue, but also believe that, given that the impairment-only model is retained, improving disclosure requirements for business combinations would be the next best approach. Therefore, we encourage the IASB to thoroughly examine whether the improved disclosure requirements in the ED have adequately addressed the “too late” issue after the implementation of the amended standards.

**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?

We basically agree with the proposals, but have suggestions for improvement. In **Q7** of our questionnaire, 88.2% of respondents agreed.

We believe that proposal (a) above would allow management's expectations regarding the business combination to be more faithfully represented in the financial statements. It would be consistent with the proposed requirement in the three-part set of disclosures: (1) the amount of the synergies expected from the business combinations, (2) the costs required to achieve the synergies, and (3) the expected timing and duration of the synergies, as stated in the *requirements to disclose quantitative information about expected synergies in the year of acquisition* in Question 5.

In addition, proposal (b) above is desirable from the perspective of consistency with corporate valuation practices and IFRS 13 *Fair Value Measurement*.

However, if cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance are to be included, that fact and its content should be disclosed.

**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?

We agree with the proposals. In **Q8** of our questionnaire, 68.8% of respondents agreed.

Even subsidiaries should have this level of information after it has been identified as material and strategic, and disclosure would not impose additional costs on preparers.

**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 agree with the proposals. In **Q9** of our questionnaire, 70.6% of respondents agreed.



We understand that the proposed amendments retrospectively are unreasonable in terms of technical aspects, additional costs for preparers, and reliability of information.

On the other hand, for first-time adopters, we believe that special relief is unnecessary because they only need to prepare and maintain information about business combinations prospectively in accordance with the ED.

Sincerely yours,



Satoshi Komiyama

Chair

Corporate Accounting Committee

## Attachment: Questionnaire Results on the ED

The SAAJ sent a questionnaire survey on the ED to members of the CAC and CMAs, of which 17 responded.

### Q1: Disclosures: Performance of a business combination...Question 1

(a) Yes	15	88.2%
(b) No	0	0.0%
(c) Neither “Yes” nor “No”	2	11.8%
Total	17	100.0%

### Q2: Disclosures: Strategic business combinations...Question 2

(a) Yes	6	35.3%
(b) No	4	23.5%
(c) Neither “Yes” nor “No”	7	41.2%
Total	17	100.0%

### Q3: Disclosures: Exemption from disclosing information...Question 3

(a) Yes	7	41.2%
(b) No	5	29.4%
(c) Neither “Yes” nor “No”	5	29.4%
Total	17	100.0%

### Q4: Disclosures: Identifying information to be disclosed...Question 4

(a) Yes	11	64.7%
(b) No	4	23.5%
(c) Neither “Yes” nor “No”	2	11.8%
Total	17	100.0%

### Q5: Disclosures: Other proposals...Question 5

(a) Yes	16	94.1%
(b) No	0	0.0%
(c) Neither “Yes” nor “No”	1	5.9%
Total	17	100.0%

**Q6: Changes to the impairment test...Question 6**

(a) Yes	12	70.6%
(b) No	0	0.0%
(c) Neither “Yes” nor “No”	5	29.4%
Total	17	100.0%

**Q7: Changes to the impairment test: Value in use...Question 7**

(a) Yes	15	88.2%
(b) No	1	5.9%
(c) Neither “Yes” nor “No”	1	5.9%
Total	17	100.0%

**Q8: Proposed amendments to IFRS X Subsidiaries without Public Accountability: Disclosures ...Question 8**

(a) Yes	11	68.8%
(b) No	2	12.5%
(c) Neither “Yes” nor “No”	3	18.8%
Total	16	100.0%

**Q9: Transition...Question 9**

(a) Yes	12	70.6%
(b) No	1	5.9%
(c) Neither “Yes” nor “No”	4	23.5%
Total	17	100.0%