



**Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)**

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International Accounting Standard Board
7 Westferry Circus, Canary Wharf
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16 July 2024

**Re: IASB ED Business combinations – Disclosures, Goodwill and Impairment –
Proposed amendments to IFRS 3 and IAS 36**

Dear Mr Barckow,

We are pleased to have the opportunity to provide our comments on the IASB's Exposure Draft *Business Combinations – Disclosures, Goodwill and Impairment*, issued by the IASB in March 2024 (the 'ED').

We appreciate the IASB's efforts to try to balance users' needs in terms of additional information about business combinations and preparers' concerns in terms of additional costs of providing commercially sensitive information.

We acknowledge the attempt of the IASB to reduce the burden for preparers by introducing an exemption and limiting some disclosures to a subset of strategic business combinations. However, we are not convinced that such relieves could be helpful, since it is very difficult to draw the right line to identify the strategic combinations and because the effects of the use of the exemption on significant transactions could give a feeling of instability to investors.

Quantitative information about expected synergies and actual performance

After outreaches with Italian stakeholders we are still concerned about the opportunity of introducing the proposed disclosures especially the quantitative information about expected synergies. This information being forward-looking, is particularly subjective and therefore difficult to reliably estimate by preparers. Finally, being very subjective, auditors may incur in significant difficulties in providing reasonable assurance over this kind of information.

Moreover, we see significant 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. Splitting the acquired business from the combined (integrated business) is not always possible and it is often inconsistent with the management view and the integrated information could become so detached from the acquired business to lose its information value for readers of financial statement.

For these reasons, we believe that the IASB should carefully consider how to proceed this project. In any case, we believe that, due to its nature, the best place to include the quantitative information on expected synergies is the management commentary rather than the notes.

Similar consideration may be drawn looking at other jurisdictions. As already mentioned in our comment letter on the IASB DP 2020, we observe that the FASB excluded the possibility to require quantitative information about factors that make up the goodwill recognized. According to the ITC issued by the FASB in 2019 this information is forward-looking and disclosing it would imply additional cost: to prepare, to audit the information and to implement necessary internal controls. Finally, the FASB observed that the link between the acquisition price and the quantitative measures required to be disclosed may be indirect and offer limited useful information.

The position of the FASB is very in line to the outcome of our position. Moreover, we highlight the importance to monitor the FASB's work also because IFRS 3 and Topic 805 are largely converged.

Finally, should the IASB continue with its proposal to include in the notes quantitative information about expected synergies, we suggest to require such information only for strategic acquisitions, and to the extent that such information is known by the company's management at the acquisition date.

Proposed thresholds to identify strategic acquisitions

In addition, we have the following comments on the factors and the thresholds proposed by the IASB to identify strategic acquisitions.

We question whether the proposed qualitative factors are really necessary. In our view, a business combination should not be considered as "strategic" only because the acquisition results in a company entering a new major line of business or geographical location. We believe that a quantitative assessment is always necessary to avoid the risk that acquisitions that have an immaterial impact on the acquirer's results and cash flows would be considered strategic. Indeed, the ED describes a strategic business combination to 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. We think that an immaterial acquisition cannot put the entity at serious risk of failing to achieve its overall business strategy. In conclusion we suggest to eliminate the qualitative factors, because we think that the quantitative factors are sufficient to identify a strategic acquisition.

With regards to the quantitative factors, we observe that the operating profit or loss may not be an appropriate threshold, because, for example, if an acquisition takes place in a

financial year in which the consolidated operating profit is close to zero, any acquisition could be considered as strategic.

We believe that revenues and total assets are sufficient to identify strategic business combinations. We also suggest the IASB to clarify how to calculate the thresholds when the financial statement of the acquiree is not IFRS compliant (i.e. it is prepared according to local GAAP). In this case, it is not clear, for example, whether the acquiree's revenues determined under local GAAP may be used to calculate the threshold.

Finally, we question whether the 10% threshold is adequate in identifying truly strategic acquisitions. We are concerned that this threshold may benefit larger groups over smaller ones, because it is more probable in a smaller group that an acquisition exceeds the 10% threshold. For this reason, we suggest the IASB, before finalizing this proposal, to estimate how many acquisitions made in recent years would have exceeded the 10 percent threshold.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Michele Pizzo
(OIC President of the Board of Directors)

