



Grupo Latinoamericano
de Emisores de Normas
de Información Financiera
Group of Latin American
Accounting Standard Setters

Brasilia, Brazil, 15 July 2024

**International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom**

RE: IFRS Accounting Standard Exposure Draft: “Business Combinations—Disclosures, Goodwill and Impairment. Proposed amendments to IFRS 3 and IAS 36”

Dear IASB Board Members,

The “Group of Latin American Accounting Standard Setters” – GLASS¹ welcomes the opportunity to comment on the Exposure Draft “Business Combinations—Disclosures, Goodwill and Impairment. Proposed amendments to IFRS 3 and IAS 36” (the ED).

This response summarizes the points of view of the members of the different countries of GLASS¹, which has been prepared in accordance with the following due process.

Due process

The discussions regarding the ED were held within a specified Technical Working Group (TWG) created in March 2024. All country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during conference calls. In those calls the TWG developed a final document based on the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

The response is structured as answers to the questions included in the ED submitted for consultation and includes comments on each of the topics covered in the referenced questions.

Overall comments

In general, GLASS agrees with the proposed amendments to IFRS 3 and IAS 36 to improve disclosures on business combinations and how value in use is calculated. We believe it will result in an improvement of the information to the investors. However, our recommendation is that the disclosures related to strategic business combinations, as well as the other new disclosures included in the ED, be required in a separate standard whose scope is restricted to entities that have public accountability.

¹ The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts, Requests for Information and Discussion Papers issued by the IASB, and to generate proposals originated from the regional initiatives. Therefore, GLASS aims to have a unified regional opinion before the IASB. GLASS is constituted by: Argentina (Board), Bolivia, Brazil (Chairman), Chile, Colombia (Vice Chairman), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru (Board), Uruguay (Board), and Venezuela (Board).



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With respect to the thresholds for identifying a strategic business combination, we make a series of suggestions to facilitate application that is consistent and aligned with the entities' vision. With respect to use of the exemption, we suggest that the wording be more restrictive and aligned with other IFRS Accounting Standards.

With respect to the projections for determining the recoverable value of the assets of a cash generating unit, it should be sufficiently clear that an entity should consider only those alternatives that are included in financial projections approved by the entity for the near future (5 years) and to which the entity is committed.

GLASS believes that a first-time adopter of IFRS should prospectively disclose information about strategic business combinations, for those combinations that take place in the first year of application of IFRS.

Specific comments

Attached please find our specific responses to the questions presented in the ED.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'José Luiz Ribeiro de Carvalho'.

José Luiz Ribeiro de Carvalho

Chairman of the Group of Latin American Accounting Standard Setters (GLASS)



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**GLASS Comment Letter on the Exposure Draft –
“Business Combinations—Disclosures, Goodwill and Impairment
Proposed amendments to IFRS 3 and IAS 36”**

Question 1—Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 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?**

Our response:

The type of information required to be disclosed demonstrates tension between the needs of information users and the concerns of preparers regarding the disclosure of strategic information that could be against their own interests.

In our region, GLASS has noted that this tension is significantly different between listed and non-listed entities. It is important to highlight that in most countries in the region, capital markets are very small or almost nonexistent, so most entities applying IFRS Accounting Standards belong to the latter group.

In the first group, there is a greater tendency to provide strategic information to users, which includes the common practice of holding informational meetings with current or potential investors to provide information and answer users' questions.

On the other hand, in the second group, the intention to withhold strategic information from competitors is prevalent, as it generally works against their own commercial interests without equivalent benefits for information users, who are typically funding and credit providers.

To resolve the tension, GLASS proposes that for these new requirements, a scope similar to IFRS 19, *Subsidiaries without Public Accountability: Disclosures*, be adopted, limiting them to entities that have public accountability.

GLASS understands that having a single standard with different scopes for different requirements could be impractical. Therefore, to design an acceptable requirement, in line with our previous proposal and with greater practicality, GLASS suggests that the disclosure requirements on business combinations be addressed separately under the following approach:

- IFRS 3, *Business Combinations*, (would address recognition, measurement and disclosure requirements, other than information on strategic business combinations); applicable to any entity using IFRS Accounting Standards;



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- IFRS X, *Disclosure of Strategic Business Combinations and Related Matters*, mandatorily applicable only to entities that have public accountability.

Using this alternative, which already exists in IFRS Accounting Standards to address similar situations, a high degree of adherence to the standard can be achieved, which would not be required for entities without public accountability. It would be appropriate to require that if the entity voluntarily decides to provide the information, it must do so in compliance with all the requirements of this standard.

Regarding investors surveyed in our region, although the disclosure of additional information is considered positive, there is concern about the reliability of such information because, in their opinion, management may have incentives to disclose objectives that may not represent their true aspirations and purposes to ensure the achievement is more likely and to avoid negative feedback from aggressive objectives that may not be achieved in the expected period.

Additionally, there is concern that the information to be provided under the new requirements could be considered forward-looking information. Although IASB staff has clarified that the presentation of forward-looking information is not excluded under existing IFRS Accounting Standards, this may create practical problems since auditors do not provide assurance on the existence and probability of achieving objectives and goals.

Question 2—Disclosures: Strategic business combinations (proposed paragraph B67C of IFRS 3):

(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?

Our response:

GLASS generally agrees with the use of quantitative thresholds for determining which business combinations are "strategic." Measurements used as quantitative thresholds in other IFRS Accounting Standards are also used in this case and are generally considered reasonable as measures of the relative importance of the combinations for the entity.

Some stakeholders believe that the 10% threshold should be verified during the application of the standard to confirm if it is indeed the reasonable threshold for characterizing combinations as "strategic."

As expressed in our response to question 1, this disclosure should not be required for entities without public accountability, and the threshold tests should only be applied by those entities when the parameters of their business combinations qualify them as strategic.

Another aspect that came up during the discussions, is that the thresholds should be rebuttable by entities that estimate that, although some of the thresholds are met, the classification as "strategic" and consequently the required disclosure might not be appropriate in certain circumstances. In this case, the entity should justify the reasons that lead to this conclusion. It is worth noting that the



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“rebuttable presumption” is already used in IFRS Accounting Standards (for example, to classify if an entity has significant influence over an investee).

An example of the application of the threshold that may not be appropriate is as follows: the asset test designed in the ED compares "the amount recognized at the acquisition date for all acquired assets (including goodwill)" with the consolidated total assets of the acquirer. This can lead to an inconsistent view of the perceived value of the entity and internal measures of relevance, as in this case the assets of the acquiree are determined based on their fair value, while the financial position of the acquirer is measured (for the most part) at historical cost. The gap between the threshold measured according to the ED and the perceived relative value of the business in the eyes of management can be even greater in cases where most of the acquirer's value in the eyes of investors (i.e., its market value) and future management prospects may consist of unrecognized intangibles, as the entity may not have been part of a prior significant business combination and has significant internally generated intangibles that are not recognized under IAS 38. This example could lead to classifying a business combination as "strategic" in situations where its contribution to key metrics (i.e., gross margins, revenues or operating results) may not be relevant at that time.

There could also be cases where the specific characteristics of certain segments might lead to reaching the thresholds without the combination being considered strategic in the eyes of management. For example, entities in the retail sector often present low margins, while revenues are significant (due to sales volume). Similarly, entities in the technology or pharmaceutical sectors, especially when in early stages of development, may have their value to the acquirer associated with their workforce or other intangibles that may not be reflected in their financial position. In the latter case, it could happen that a strategic business combination is not identified, as the thresholds would not be met, but the acquiree could be key to the long-term business strategy of an acquirer.

Additionally, we found no evidence through research and discussions within our region that entering a "new geographical area of operations" would always result in a strategic acquisition. Entering a new geographical area of operations could be part of an entity's long-term aspirations but could also be conducted as a "test" exercise that would provide a basis for an entity to adjust or revise its strategy for certain segments and markets. Similarly, the qualitative threshold of a new "major line of business" could be better developed with application guidance, including its correlation with the "major line of business" according to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

Therefore, in relation to the qualitative thresholds, GLASS considers that they should be based on a principles-based approach rather than a "list" of situations. This approach would better allow preparer judgment in preparing disclosures that would be more intrinsically connected with an entity's strategy and aspirations regarding what indeed represents a strategic acquisition. Additionally, with such an approach, entities would be expected to disclose in the financial statements the judgments made in determining whether the acquisition is strategic, which would likely include the strategic justification for the acquisition required in additional paragraphs of the ED.

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

- (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.**



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(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.

Our response:

GLASS agrees that there should be exceptions to the disclosure of information when it clearly affects the interests of the entity.

For entities that must apply the exemption, in our opinion, such application would be challenging and could lead to significant diversity in practice. The choice of wording for the disclosure that an entity would apply the exemption when it is expected that disclosure would "prejudice seriously" the achievement of key objectives seems to imply that the exemption would be limited to rare and very specific circumstances.

However, although the exemption appears to be inspired by the similar exemption included in paragraph 92 of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the statement that the exemption would apply in "extremely rare cases" has not been included in the ED. This could lead entities and preparers to interpret that the exemption could be applied most of the time and could eventually lead preparers to apply the exemption when the information might be considered unfavorable, for example, by the capital market (as described in paragraph B67D(a) of the ED).

Comments received from our region indicate that the IAS 37 exemption has been working well and abuses have not been extensively observed. Therefore, we believe it would be desirable to align both exemptions (the one provided by the ED and the one provided by IAS 37), especially since both refer to impacts that would "prejudice seriously" and are intended to be "anti-abuse" exemptions.

This approach could also be beneficial in avoiding significant diversity in practice, which was a concern specifically expressed by investors in our region. In this sense, the lack of a specific provision specifying the uncommon nature of such an exemption could lead to a flexible interpretation of the criteria for applying the exemption, resulting in similar situations being treated differently by entities.

Additionally, we believe users would benefit from an expanded list of facts and circumstances that could be considered when applying the exemption. This could be achieved by expanding the guidance in paragraph B67D (not only to broaden the scenarios in which an entity could not apply the exemption but also to include scenarios in which the exemption would be appropriate). In our opinion, while this may, to some extent, lead to a more prescriptive approach, it would facilitate the application of judgment and could potentially reduce the diversity in practice when applying the exemption.

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

(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:



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(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?

Our response:

GLASS agrees that the entity should only disclose information that it routinely prepares, that is reviewed by its key management personnel and that it should not be necessary to prepare that information solely to comply with the standard. We find the different proposed scenarios regarding the review (or lack thereof) of information by key management personnel to be appropriate.

The pursuit of transparency implies that users access the information that management considers relevant for evaluating its own performance and no more than that. This also has implications regarding the cost of preparing the information to be disclosed, as it will always be information that is available and therefore will not require additional preparation efforts solely to comply with the standard.

It should be considered that a large number of entities applying IFRS in our region, private and/or family-owned mainly, do not have sophisticated mechanisms for making acquisition decisions or for specifically tracking the performance of acquired businesses, especially in relation to their impact in terms of synergies with other existing businesses.

In many cases, entities without public accountability that use IFRS, make decisions based on the personal preferences of the owners, based on their experiences and instincts about the future of certain activities or businesses, not supported by any specific metrics. This, in our opinion, adds arguments to our proposal for non-disclosure by these entities.

In the case of an entity that has public accountability but does not prepare quantitative and qualitative information to support its acquisition decisions, this fact should be disclosed because it constitutes very relevant information for users to evaluate the quality of management.

An important addition is to require that, when the information contains figures that are disclosed but do not originate from financial statements prepared in accordance with IFRS, a reconciliation should be presented between the key figures used by management for supervision and the most similar information derived from the financial statements prepared under IFRS Accounting Standards.

Question 5—Disclosures: Other proposals:

The IASB proposes other amendments to the disclosure requirements of IFRS 3. These relate to:

- **New objectives for disclosure**
- **Quantitative information about expected synergies in the year of acquisition (with exceptions in certain circumstances)**
- **The strategic rationale for a business combination**
- **Contribution of an acquired business**
- **Classes of acquired assets and assumed liabilities**



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

Our response:

GLASS agrees with the other amendments to the disclosure requirements of IFRS 3, but once again we recommend, they be restricted to entities that have public accountability, in line with our response to question 1.

Also, consistent with our response to question 1, we have concerns regarding the reliability of prospective financial information. Based on feedback received from investors in our region, such information is historically considered less credible compared to the additional information included in the financial statements, as synergy expectations are generally based on subjective internal information prepared by management that is not based on standardized rules or uniform guidance and may not be verifiable.

We also believe that the inclusion of such information in the financial statements may pose a challenge in reaching an agreement between auditors and entities on the suitability of the disclosures, as they may be considered based on forward-looking information (as stated in our response to question 1).

Question 6—Changes to the impairment test (paragraphs 80–81, 83, 85 and 134(a) of IAS 36):

(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?

Our response:

GLASS agrees with the proposals for the changes in the impairment tests. However, we believe that the additional disclosure requirements may have little impact on reducing “shielding” since the basic procedures for recognizing the recoverable amount have not changed.

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):

(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?

Our response:

GLASS agrees with the proposal to allow inclusion of the effects of approved and ongoing restructurings in future cash flows. However, allowing the inclusion of future restructurings for which there is not yet a commitment might be a very subjective and unauditible assumption.



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Feedback received during our consultation with preparers indicated that entities generally have different scenarios associated with their budgeting process, some of which will result in different economic outcomes depending on the different business strategies selected. While all of these are based on reasonable and supportable assumptions, it cannot be inferred that all scenarios would represent “management’s best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.”

In our view, it should be sufficiently clear that only those alternatives that are effectively included in the financial projections approved by the entity for the near future (5 years) and with which the entity is committed should be considered.

Additionally, there is a long history of issues in business accounting related to the late recognition of impairments (both under IAS 36 and even IFRS 9), which, as mentioned earlier, has been explicitly described as a concern of users in the feedback received that led to the creation of the project.

We believe that such changes in the value-in-use model have the potential to promote excessive management optimism, where different plausible scenarios with which management has not yet committed or for which significant actions have not yet been initiated to support the recoverability of an asset (especially for goodwill and indefinite-lived intangibles) could be “carefully selected.”

This feedback has also been shared by investors in our region, who believe that such an amendment could reduce the transparency and reliability of the impairment test in the financial statements.

GLASS agrees with the proposal not to impose a single discount rate option (pre-tax) with the requested condition of consistency between the composition of the cash flows and the components of the discount rate used; we consider this to be a significant improvement.

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

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

Our response:

In line with our response to question 1, we believe that this disclosure should not be required for entities with these characteristics.

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.

Our response:



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GLASS agrees with the proposals. However, we believe that an entity applying IFRS for the first time should only disclose information about strategic business combinations prospectively, for those combinations that take place in the first year of application of IFRS
