To Date – 05th April 2024

The Chariman

Amritsar Branch of ICAI

Amritsar

Subject – Comment on Exposure draft Business Combinations – Disclosure, Goodwill and Impairment.

Dear sir,

Considering the captioned subject, below are the Comments on Exposure draft :

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

Comment

Addressing point (a), the threshold approach seems to be a practical way to ensure that only the most significant business combinations are subjected to the rigorous disclosure requirements, which can be quite demanding in terms of effort and resources. It is a targeted approach that could help investors and other stakeholders understand which business combinations are truly strategic to the company. However, some might argue that the threshold approach could lead to the exclusion of information that, while not meeting the set thresholds, could still be relevant to stakeholders' understanding of the company's future prospects

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

Comment

(a) The exemption is intended to balance the need for transparency with the potential adverse effects on a company's strategic goals. While the principle behind the exemption appears sound, the effectiveness of its application will heavily rely on the judgment of the preparers and auditors. The proposed exemption could be applied in the appropriate circumstances if the guidelines are clear and specific, thereby reducing the scope for subjective interpretation which could lead to inconsistent application. If not, the IASB could consider adding more quantifiable metrics or clear examples to ensure that the exemption is not misapplied or overused.

(b) The proposed application guidance aims to ensure that the exemption is applied only when necessary, which is crucial for maintaining the quality of disclosures. Whether this guidance would actually restrict the application of the exemption to appropriate circumstances depends on its specificity and clarity. If the guidance is too vague, it could lead to entities unjustifiably withholding information. To enhance the application guidance, it could be useful to include a series of case studies or scenarios that exemplify circumstances where the exemption should and should not be applied. This would provide preparers, auditors, and regulators with a clearer framework for decision-making.

Overall, the exemption and the application guidance need to be detailed enough to prevent abuse but flexible enough to account for the wide variety of strategic business combinations.

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)?

Comment

(a) Removal of the constraint on including certain types of future cash flows in the calculation of an asset's value in use.

Comment: Removing this constraint could allow for a more comprehensive assessment of the value in use, reflecting the full benefits an asset could bring to an entity, including those from future restructurings or performance enhancements not yet committed to. This could lead to a more accurate representation of an asset's potential value. However, this proposal could also introduce more subjectivity and uncertainty into the impairment testing process, as it would rely heavily on projections and estimations of future benefits that are inherently uncertain. It would be crucial to establish stringent guidelines on how to project and discount these future cash flows to prevent overly optimistic valuations.

(b) Removal of the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use.

Comment: The proposal to remove the requirement for pre-tax cash flows and discount rates and instead use internally consistent assumptions could result in a more faithful representation of the economic benefits of the assets from the perspective of the entity. Using post-tax measures could align the impairment testing process more closely with the entity's actual tax environment and cash flows. However, it might reduce comparability across entities that have different tax structures. Consistency within the entity is important, but comparability across entities also provides value to users of financial statements. The IASB might need to consider whether additional disclosures would be necessary to ensure that users can understand and compare the basis on which different entities have calculated their value in use

Question 9—Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard) ?

Comment

The proposal for entities to apply amendments to IFRS 3, IAS 36, and the Subsidiaries Standard prospectively and without restating comparative information offers a practical approach that avoids the complexities and costs associated with restating prior periods. While this method is advantageous in terms of efficiency and resource allocation, it does present potential challenges for comparability, as the amendments will affect financial statements only from the effective date forward. Moreover, the absence of specific concessions for first-time adopters could impose additional burdens on them as they navigate the intricacies of IFRS adoption. To strike a balance, it would be constructive to consider supplemental guidance or examples to aid entities in applying the amendments smoothly. In instances where comparability is a significant concern, the IASB might contemplate necessitating further disclosures during the transition phase to facilitate a deeper understanding of the changes, thereby enabling users of financial statements to draw more informed comparisons. The stances on these proposals would hinge on evaluating the need for uniformity and comparability against the practical implications and costs entailed in adjusting to these changes

Thanks & Regards

CA Aashish Gupta

M.No. 560583
Mobile - 7508519692