

**The LIAJ's Comments on the Exposure Draft**  
***Business Combinations—Disclosures,  
Goodwill and Impairment***

***Proposed amendments to IFRS 3 and  
IAS 36***

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**The Life Insurance Association of Japan (LIAJ)**

**Contents**

**I. General comments on the Discussion Paper**

**II. Responses to the questions**

**Question 1**

**Question 3**

**Question 5**

## I. General comments on the Exposure Draft

1. We, The Life Insurance Association of Japan (or “the LIAJ”), would like to extend our gratitude to the International Accounting Standards Board (or the “IASB”) for providing us with the opportunity to submit comments on the *Exposure Draft, Business Combinations - Disclosures, Goodwill and Impairment, Proposed amendments to IFRS 3 and IAS 36* (hereinafter referred to as the “ED”), published in March 2024.
2. Insurers in Japan have the characteristics of being both users and preparers of financial statements. From the standpoint of users, the LIAJ believes it is integral for users to be provided with useful information, which contributes to their decision making. On the other hand, from the standpoint of preparers, the LIAJ believes it is not appropriate for preparers to incur significant costs in preparing financial statements. Therefore, the LIAJ recognizes that striking a balance between the needs of users and costs of preparers from a cost-benefit perspective should be always pursued.
3. The LIAJ provided following comments on the Discussion Paper, *Business Combinations - Disclosures, Goodwill and Impairment* (hereinafter referred to as the “DP”), published in March 2020:
  - The LIAJ is concerned about the preliminary view stated in Section 2 – Improving Disclosures About Acquisitions. For example, the preliminary view, “A company should be required to disclose information about the management’s objectives for an acquisition”, is stated in the DP. The LIAJ is concerned this may lead to the disclosure of commercially sensitive information, and as a result add significant costs on preparers.
  - Even if companies provide such information, the LIAJ believes such information should not be disclosed in the notes to the financial statements. Such information is considered not appropriate because the information is forward-looking.
4. While the IASB has adopted some of the LIAJ’s above comments on cost on preparers, the LIAJ believes that the ED still leaves room for improvement by addressing following concerns:
  - The LIAJ supports the proposal to exempt entities from disclosing some items of commercially sensitive information in specific circumstances. However, the criteria for exemption could be too narrow, focusing on prejudicing the achievement of the key objectives for the business combination.
  - The IASB continues to require disclosing information about the performance of a business combination in the notes to financial statements, from the context of providing information about the acquisition price for the business combination. However, given that such information includes synergies, the LIAJ believes it would be more useful to enhance users’ understanding, reduce cost on preparers and strike a balance on a cost-benefit perspective, when provided outside the financial statements, along with management’s expectations and assumptions for the business combination.

5. The LIAJ would like the IASB to refer to the comments on Questions 1, 3 and 5. The LIAJ expects the IASB to examine stakeholders' comments on the ED, securing commercial sensitivity taking into account a cost-benefit perspective comprehensively, and advance its discussion.

## II. Responses to the questions

### **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?

<Answer to Questions (a) and (b)>

6. While the accurate distinction between what should be inside and outside financial

statements, the IASB claims that the information about the performance of a business combination provides information about the acquisition price and could be required to be disclosed in financial statements.

7. While the LIAJ does not deny usefulness of information about the performance of a business combination, as explained in its general comments on the ED, such information would be more useful to enhance users' understanding, when provided along with expectations and assumptions for the business combination, disclosed outside the financial statements as part of the business strategy. Therefore, it would be reasonable to disclose such information outside financial statements.
8. Additionally, key objectives and related targets could include those which are cannot be expressed monetarily (for example, increasing the number of customers, improving development capacity and sharing of expertise and experiences). This would also support the appropriateness of disclosing such information outside financial statements.

**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.

<Answer to Questions (a) and (b)>

- 9. Given the LIAJ's strong concern about commercial sensitivity upon disclosing information about the performance of a business combination, the LIAJ agrees with the proposed exemption from disclosing such information in specific circumstances.
- 10. However, the criteria for exemption could be too narrow, focusing on prejudicing the achievement of the key objectives for the business combination. This is because, in addition to the business combination subject to the disclosure requirement, potential detrimental circumstances for the entity in future business combinations and other transactions should be considered as well.
- 11. According to the IASB's proposal, information expected to prejudice seriously the achievement of the key objectives for future business combination and other transactions would not meet the criteria for exemption. As such, the LIAJ believes that it would be appropriate to set a broader criteria for exemption based on whether the achievement of key objectives of the entity as a whole, instead of that for the business combination, would be prejudiced.

## 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?

#### *New disclosure objectives*

12. The LIAJ does not agree with the proposals. Given that information about the acquisition price includes synergies, would hence involve a quantity of uncertainty and be forward-looking particularly for insurers, the LIAJ believes it would be more useful to enhance users’ understanding and reduce cost on preparers, when provided outside the financial statements, along with management’s expectations and assumptions for the business combination.

#### *Requirements to disclose quantitative information about expected synergies in the year of acquisition*

13. The LIAJ does not agree with the proposals. The LIAJ does not see any reasons for setting out detailed particular requirements specifically for synergies among other elements constituting goodwill. Information about synergies would be more useful to enhance users’ understanding when provided outside the financial statements, along with information concerning management’s expectations and assumptions for the business combination.
14. Disclosing quantitative information about synergies would be more costly than maintaining them internally, due to the need for examining scope of the synergies and rationality of basis for the assumptions. Therefore, the LIAJ believes that the IASB should take into consideration balances between information needs and cost for preparation and auditing, if it proceeds with the proposals on requirements to disclose these information.
15. Also, if the IASB proceeds with the proposals, it would need to explain precisely scope and details of the synergies about which information is expected to be disclosed, given the importance of verifiability and comparability of the information. The verifiability would be particularly important if the acquired entity is an insurer because it calculates the super-long term cash-flow based on assumptions proportionate to the characteristics of insurance products.

#### *The strategic rationale for a business combination*

16. The LIAJ agrees with the proposals.

Contribution of the acquired business

17. The LIAJ agrees with the proposals.

Classes of assets acquired and liabilities assumed

18. The LIAJ agrees with the proposals.

Deleting disclosure requirements

19. The LIAJ agrees with the proposals.