AcSB
Accounting Standards Board

IFRS 3 Business Combinations

Exploring the effectiveness and usefulness of IFRS 3

September 2026

ASAF

Agenda

- Background and Purpose
- Interaction with IAS 38 *Intangible Assets* and Broader User Insights on IFRS 3
- Interaction with Other Standards
- Earn-outs and Contingent Consideration
- Asset Acquisitions vs Business Combinations
- Reflections and Questions

Background and Purpose

Background and Purpose

The objective of IFRS 3 *Business Combinations* is to provide users of financial statements with relevant, reliable and comparable information about a business combination and its effects

The AcSB's research explores potential conflicts between achieving the objective of IFRS 3 at the acquisition date, and the usefulness of financial information in the post-combination period. This includes considering whether IFRS 3 and its interaction with IAS 38 Intangibles and other Standards provide information that faithfully represents the economics of business combinations and meets users' information needs over time

This research further evaluates whether the distinction between business combinations and asset acquisitions is well understood and results in meaningful differences in accounting outcomes, as well as whether the accounting for earn-out arrangements provides decision useful information in the post-acquisition period

Research Questions

Does IFRS 3 achieve its intended objective of providing useful information about business combinations at the acquisition date?

How does the application of IFRS 3 affect the usefulness and reliability of financial information in the post-combination period?

Are the accounting distinctions between business combinations and asset acquisitions well understood by users, and do they result in information that is decision useful in assessing these transactions?

Interaction with IAS 38 *Intangible Assets* and Broader User Insights on IFRS 3

AcSB

Overview of Research Activities

Our research drew on multiple sources to build a foundational understanding of issues related to Intangible Assets and their interaction with IFRS 3 *Business Combinations*. This work included:

- **Review of academic literature** examining the recognition, measurement and comparability challenges associated with intangible assets, both acquired in business combinations or generated internally, and the resulting information asymmetry between organic and acquisitive growth strategies
- **Desktop research**
  - Identifying conflicts arising from differences in definitions, recognition criteria, and measurement bases between IFRS 3 and other standards
  - Analyzing a sample of business combinations involving publicly traded Canadian companies of various sizes, across multiple sectors, focusing on the significance of intangible assets and goodwill
- **Discussions with the AcSB's** User Advisory Committee (UAC) that considered how information about intangible assets acquired in a business combination supports users' investment decisions

Academic Literature Review Findings

Academic Literature Review Findings: Interaction with IAS 38

- **Importance of Intangibles:**
  - Intangible assets are crucial in modern economics, especially for technology and service-oriented companies
- **Current Accounting:**
  - Intangible assets acquired in a business combination are capitalized even when equivalent internally generated assets would not qualify, creating comparability challenges between entities that grow organically and those that expand through acquisitions
  - Valuing intangible assets often requires complex valuation techniques using unobservable assumptions, which may lead to variability in valuation outcomes
  - Current disclosures related to intangibles are often limited and lack detail*
- **Investor Preferences:**
  Users favour enhanced disclosures about acquired intangible assets rather than broader recognition of intangibles or expanded use of fair value measurements. Additional disclosures could include:
  - Valuation methods and key inputs used to estimate fair value
  - Performance metrics (i.e. revenue from patents, customer retention rates)
  - Disaggregation of intangible-related expenditures from other operating expenses to provide greater transparency into the ongoing costs of maintaining capitalized intangible assets

*Includes intangible assets, both acquired or internally generated, as well as intangible-related expenditures that do not qualify for capitalization and are not separately presented in the income statement

Desktop Research Findings

Intangible Assets and Goodwill in Canadian Business Combinations

Conducted an analysis of business combinations involving publicly traded Canadian companies of varying sizes, across multiple sectors, focusing on the significance of acquired intangible assets and goodwill*

- Examined how acquired intangibles and goodwill contribute to the overall asset base of acquired businesses, and identified sector-specific trends in the types of intangibles recognized in acquisitions
- Assessed the extent to which unrecognized intangibles may be subsumed within goodwill, providing context for ongoing discussions about the adequacy of disclosures and the need for improved information regarding acquired intangibles
- These findings were considered alongside feedback and calls for enhanced transparency in financial reporting

*The sample comprises entities with fiscal years ending in 2022, 2023, and 2024. Data were obtained from the purchase price allocation (PPA) note in the financial statements for the respective fiscal years. The acquisitions span a range of transaction sizes, from larger to smaller, and reflect activity across multiple industries; however, industry representation within the sample is not uniform. Accordingly, the research findings are not intended to provide precision at the industry level, but rather to highlight general directional sector trends and observations across the overall sample.

Intangible Assets and Goodwill in Canadian Business Combinations

86%

Of total consideration paid attributed to intangible assets and goodwill

44%

Average **intangible assets** as % of consideration

42%

Average **goodwill** as % of consideration

25

Canadian public company acquisitions analyzed

*The sample indicates that the value of acquired entities is increasingly driven by **intangible assets and knowledge-based factors** rather than tangible assets.*

AcSB

*The appendix provides additional detailed findings from this desktop research

User Perspectives

How we engaged Canadian Users

Direct input was sought from the AcSB's User Advisory Committee (UAC) on how acquisition accounting affects their analysis*

For each sub-topic, we examined Canadian case studies and invited UAC members to share their perspectives through targeted discussion questions

User perspectives were generally consistent with the investor preferences identified through the academic literature review. The following slides highlight incremental user insights obtained

AcSB

*The UAC brings together analysts and other users of financial statements to advise the AcSB

Observations: Acquisition-Date Accounting

What users told us they find useful (Acquisition-Date)

- IFRS 3 provides a clear framework for understanding transaction fundamentals, including:
    - the purchase price;
    - goodwill recognized; and
    - high-level identification of acquired assets and liabilities.
- Goodwill is viewed as a useful reference point for assessing management’s historic capital deployment

AcSB

Observations: Acquisition-Date Accounting

Key concerns

- Detailed purchase price allocations are of limited analytical value to users:
  - Valuing individual assets, particularly **“soft” intangibles** such as customer relationships, often requires complex valuation techniques and unobservable assumptions, resulting in variable valuation outcomes
  - Users place little reliance on these detailed allocations in their analysis
- Day 1 accounting allocations are not central to performance assessment:
  - The purchase price allocation does not provide insight into whether the acquisition will ultimately deliver expected returns

AcSB

Observations: Post-Combination Accounting

What users consider most decision-useful

- Post-acquisition performance information is significantly more important than Day 1 measures
- Users focus on:
  - the acquired business's **contribution to margins and cash flows**; and
  - whether the acquisition achieves **management's expected returns**

Users want information that helps assess whether acquisitions create value over time, rather than how assets were allocated at inception

AcSB

Observations: Post-Combination Accounting

Key concerns and observations

- Goodwill impairment is seen as a lagging indicator:
  - While goodwill balances are monitored over time, impairment recognition is often delayed relative to underlying economic declines
  - As a result, the recognition of impairments provides limited insight into deteriorating performance
- Common adjustment to users' analytical models:
  - **Amortization of acquired intangible assets** is a common adjustment made by users because it is often not viewed as representative of the ongoing costs of generating or maintaining intangible assets. Users noted that many internally generated intangible assets do not qualify for recognition under IAS 38, resulting in related costs being expensed as incurred, while acquired intangible assets are subsequently amortized. Some users therefore view the amortization expense as double counting the continuing economic cost.
  - Users also commonly adjust for the effects of other acquisition accounting requirements, including inventory fair value step ups, acquired revenue contracts and certain acquisition date fair value adjustments, when these effects are viewed as reducing comparability or obscuring underlying operating performance. The following section explores these interactions with IFRS 3 in more detail.

*Broad support expressed for enhanced **post-acquisition performance disclosures**, which would provide clearer evidence of whether acquisitions deliver anticipated benefits*

Interaction with Other Standards

Interaction with Other Standards

The measurement requirements in IFRS 3 at the acquisition date do not always align with those applied in subsequent period

The following slides examine the interaction of IFRS 3 with these Standards in greater detail:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IAS 2 Inventory
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets

AcSB

*Additional areas of conflict between IFRS 3 and other Standards in the post-combination period are summarized in the appendix

IFRS 9 Financial Instruments

Expected Credit Losses on Acquired Financial Assets

- **At acquisition date (IFRS 3):**
  - Acquired financial assets (e.g., loan portfolios, receivables) are measured at fair value
  - Fair value reflects market participant expectations of credit losses
- **After acquisition (IFRS 9):**
  - Financial assets are subject to the expected credit loss (ECL) model
  - Entities recognize ECL immediately (“day 1”), even when no further deterioration has occurred

Sources of the Conflict

- **Overlapping measurement of credit risk**
- **Potential double counting of credit losses**
  - Embedded in acquisition-date fair value, followed by additional ECL recognition post-acquisition
- **Different measurement objectives**
  - IFRS 3 → market-based fair value (market-participant perspective)
  - IFRS 9 → forward-looking impairment model (entity-specific model)

IFRS 9: Post-Combination Accounting Effect

Example
Entity A acquires Entity B, including a **loan portfolio of $1,000** (Book value)

At acquisition date (IFRS 3)
- Loans measured at fair value: $950

After acquisition (IFRS 9)
- Entity recognizes ECL allowance of $100
- Net carrying amount: $850

Financial Reporting Implications:
- IFRS 3's fair value measurement and IFRS 9's ECL measurement are based on different objectives and assumptions, creating potentially counterintuitive measurement tensions
- Economic credit risk reflected twice once in fair value reduction (IFRS 3), and then through ECL allowance recognition (IFRS 9)

AcSB

*The FASB resolved this conflict through ASU 2025-08 by applying a “gross-up” approach, recognizing expected credit losses at the acquisition date as part of the asset’s carrying amount rather than as a day 1 expense thereby avoiding double counting. (Effectively eliminating the day 1 credit loss expense - no immediate earnings impact)

IFRS 16 Leases

Acquired Leases

Acquiree is the lessee (IFRS 3 exception*)

- The lease liability is remeasured at the present value of the remaining lease payments, as though a new lease had been entered into on the acquisition date
- The right of use (ROU) asset is the same amount adjusted for off-market terms (i.e., lease liability ± adjustments for off-market terms)
- IFRS 3 requires that these adjustments be recognized in the ROU asset to avoid embedding favourable or unfavourable lease terms within goodwill, which would otherwise obscure this information for users

Lessor operating leases#

- The acquirer recognizes no separate asset or liability for favourable or unfavourable lease terms
- The effect of off-market lease terms is embedded in the acquisition-date fair value of the underlying leased asset

Sources of the Conflict

- **Transparency:** Difficulty identifying the value of favourable or unfavourable lease terms
- **Comparability:** Limited visibility into the economics of acquired leases across transactions
- **Earnings predictability:** Subsequent earnings may not clearly reflect the economics of off-market lease terms

AcSB

* The accounting reflects a measurement exception in IFRS 3 that requires the application of IFRS 16 measurement requirements, rather than the fair value measurement principle in IFRS 3

IFRS and US GAAP are aligned for acquired lessee leases, with lease liabilities measured under lease accounting requirements and favourable or unfavourable lease terms reflected in the related asset. The key difference relates to acquired lessor operating leases, where US GAAP recognizes separate intangible assets or liabilities for off-market terms, while IFRS incorporates these amounts into the underlying leased asset

IFRS 16: Post-Combination Accounting Effect

Example

The acquirer obtains a building in a business combination subject to an existing lease, assuming the lessor position, with contractual rents above current market rates.

Under IFRS 3 (Acquisition date):

- The building's acquisition-date fair value reflects those favorable lease terms
- No separate "favorable lease intangible" is recognized

After acquisition:

- Rental income continues to be recognized under IFRS 16 based on the lease contract
- Depreciation (or fair value changes if accounted for as investment property at fair value) follows the accounting model applied to the underlying asset

*The economics are captured, but **not** through a separate lease-related asset or liability. The acquisition-date fair value adjustments embedded in the leased asset may produce earnings patterns that do not align with the related operating lease term*

IFRS 15 Revenue from Contracts with Customers

Acquired Performance Obligations

At the acquisition date:

- Measured at the acquisition-date fair value, not at the IFRS 15 transaction price
- This creates a measurement mismatch with the acquiree's pre-deal accounting

Post combination revenue recognition

- Acquisition-date contract fair values reduces post-acquisition revenue compared to what the acquiree would have shown in its standalone financial statements

Sources of the Conflict

- **Forecasting difficulty:** The fair value “reset” of contract balances can make revenue and gross margins less predictable
- **Trend analysis:** Acquisition-date accounting can distort revenue trends, complicating period-over-period analysis
- **Underlying economics:** Reported revenue reflects acquisition-date accounting adjustments rather than changes in underlying customer activity

IFRS 15: Post-Combination Accounting Effects

Example

- Customer prepays **$100m** for future services
- Contract liability under IFRS 15 = **$100m**

At acquisition date

- IFRS 3 measures the remaining performance obligation at **fair value**
- Fair value of contract liability = **$70m**

After acquisition

- Revenue recognized under IFRS 15 is based on the **$70m** contract liability
- Future reported revenue = **$70m**, not **$100m**

Same customer contract. Same services. Different reported revenue.

The difference arises because IFRS 3 resets the measurement basis from an IFRS 15 contract liability to a fair value obligation at the acquisition date*

AcSB

*The FASB resolved this conflict through ASU 2021-08 by creating an exception to business-combination fair-value accounting and requiring acquired contract assets and contract liabilities to be measured under ASC 606 rather than at fair value. This largely eliminates deferred-revenue write-downs and improves the comparability of post-acquisition revenue.

IAS 2 Inventory

Measurement of Inventory Acquired in a Business Combination

- **At acquisition date (IFRS 3):**
  - Acquired inventory is measured at fair value, not at the acquiree's carrying cost
  - Fair value may already reflect some or all of the acquirer's expected profit margin
- **After acquisition (IAS 2):**
  - Inventory is carried at the lower of cost and net realizable value
  - On sale, the fair-value "cost" flows to cost of sales, so little or no margin is recognized

Sources of the Conflict

- **Different measurement objectives**
  - IFRS 3 → fair value at the acquisition date (exit-price, market-participant perspective)
  - IAS 2 → historical cost, subject to the lower of cost and net realizable value
- **Suppressed margins on post-combination sales**
  - Selling fair-valued inventory shortly after acquisition produces reduced or zero gross profit
  - Is not indicative of the gross margins expected on future inventory sales
  - Distorts comparability with the acquirer's organically produced inventory

IAS 2: Post-Combination Accounting Effect

Example
Entity A acquires Entity B, including **inventory that cost Entity B $600** (Book value)

At acquisition date (IFRS 3)
- Inventory measured at fair value: $1,000

After acquisition (IAS 2)
- Inventory carried at fair value of $1,000 (its new cost under IAS 2)
- Entity A sells it for $1,050
- Gross profit recognized: only $50, versus $450 the acquiree would have shown

Financial Reporting Implications:
- The acquiree's earned margin is captured in the acquisition-date fair value, not in post-combination revenue
- Reported gross margins are often depressed following a business combination, which can obscure underlying operating performance

AcSB

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Measurement of Provisions and Contingent Liabilities Acquired in a Business Combination

- **At acquisition date (IFRS 3):**
  - Provisions and certain contingent liabilities assumed in a business combination are recognized and measured based on acquisition-date fair value concepts
  - Recognition may occur even when the outflow of economic benefits would not be considered probable under IAS 37
- **After acquisition (IAS 37):**
  - Acquired obligations are subsequently measured using IAS 37 requirements, including updated estimates of expected cash outflows and timing of settlement

Sources of the Conflict

- **Different recognition thresholds:** IFRS 3 may recognize obligations that would not otherwise meet IAS 37 recognition requirements
- **Different measurement objectives:** IFRS 3 focuses on acquisition-date fair value, while IAS 37 focuses on the current best estimate of the expenditure required to settle the obligation
- **Post-acquisition volatility:** Subsequent reassessments may affect earnings even when the underlying obligation relates to events that occurred before the acquisition
- **Transparency and comparability:** Users may find it difficult to distinguish changes arising from revised estimates versus changes in the economics of the acquired business

IAS 37: Post-Combination Accounting Effect

Example
Entity A acquires Entity B, including an environmental remediation obligation

At acquisition date (IFRS 3)

- Fair value of obligation: $150

After acquisition (IAS 37)

- Updated remediation studies indicate expected clean-up costs of $190
- Liability increased to $190
- Loss recognized in earnings: $40

Financial Reporting Implications:

- Subsequent revisions to acquired obligations can affect earnings trends after the acquisition date
- Without additional disclosures, users may find it difficult to determine whether changes reflect acquisition-date estimation uncertainty or changes in underlying operating performance

Financial Statement User Perspectives

Key themes emerging from user discussions on the interaction of IFRS 3 with other Standards:

Distorted trends — these measurements can affect post-acquisition revenue, margins and earnings trends in ways that may not reflect economic performance

Comparability suffers — post-acquisition results may not be comparable with the acquired business's history, or with entities that have grown organically

Analytical capacity — sophisticated users may adjust for these effects; not all users have the same access to information, time or resources to make these adjustments*

Reliance on MPMs — users may become dependent on management-defined performance measures instead of the primary financial statements

What would help — Users primarily emphasized the need for additional disclosures explaining the source, magnitude, duration, and economic effects of acquisition accounting adjustments. However, for certain interactions, particularly IAS 2 acquired inventory, IFRS 15 revenue contracts and IFRS 9 acquired financial assets, some users also expressed support for IFRS 3 measurement approaches that reduce artificial post acquisition distortions

*For example, users often exclude the effects of inventory fair value step ups from earnings because the acquisition date fair value is not considered representative of replacement or production cost

Earn-outs & Contingent Consideration

What is an Earn-out?

Definition. An earn-out (contingent consideration) is additional consideration that buyers agree to pay the seller if specified post-closing performance targets, typically, *revenue, EBITDA, or operational milestones,* are met during a defined period after closing

Why they exist

- Bridge a buyer / seller valuation gap
- Retain key sellers / management post-close
- Transfer risk on future performance to the seller

How they're accounted for under IFRS 3

- Recognized at the acquisition-date fair value as part of consideration transferred (impacts goodwill)
- Classified as financial liability or equity based on how the consideration is settled
- If liability: remeasured to fair value each period **<u>through P&L</u>**
- If equity: not remeasured

How Common are Earn-outs in Canada?

Metric	Result	Source
Use in Canadian private deals	~26% of deals (2023); 20–28% over past decade	*ABA Canadian Private M&A Deal Points Study*
Use in private mining / metals companies	~47% of transactions surveyed in 2024	*Aird & Berlis review of Practical Law / TR Canada*
Typical size	Median ~31–32% of closing payment	*SRS Acquiom 2025 M&A Deal Terms Study*
Typical length	Median 24 months (1–3 year range)	*SRS Acquiom 2025*
Most common metrics	Revenue (~36%), EBITDA (~29%)	*Torys LLP analysis of ABA study*
Payout outcome	Less than 60% pay out fully	*Whiteford / Bloomberg Law*

Earnouts are common in Canadian private M&A — particularly mining, life sciences and technology, but pay out fully less than 60% of the time, creating complex post-close accounting

AcSB

Why Goodwill is Not Revised When an Earn-out is Not Met?

The mechanics

1. At acquisition date, contingent consideration is included in consideration transferred at fair value
2. Which directly impacts the residual goodwill recognized at the acquisition date
3. After the measurement period:
   - IFRS 3 explicitly **prohibits** adjusting goodwill for subsequent changes in the fair value of contingent consideration
   - Liability-classified contingent consideration is remeasured to fair value each reporting date with changes recognized in P&L
   - Equity-classified contingent consideration is not subsequently remeasured

The disconnect: Goodwill is influenced by an estimate of the earnout. Subsequent changes in that estimate impact P&L and **not** goodwill. *A missed earnout creates a P&L recovery and not a goodwill write-down, even though the rationale for the original goodwill amount has changed*

AcSB

Financial Statement User Perspectives

Key themes emerging from user discussions on the accounting for earn-out arrangements:

Earnings effects — subsequent remeasurement can materially affect earnings, thereby distorting current-period operating performance

Not sustainable performance — these gains and losses are often treated as acquisition-related items rather than indicators of sustainable performance

Counterintuitive outcomes — a reduction in expected earn-out payments may produce a gain even though the business is performing below expectations

Context is essential — users need to know whether gains or losses arise from fundamentals, changed assumptions or the mechanics of the accounting

What would help — Users indicated that the priority is not necessarily eliminating counterintuitive outcomes, but rather providing better disclosure of performance targets, assumptions, valuation drivers, timing and reasons for remeasurements

Asset Acquisitions vs Business Combinations

Asset Acquisitions vs Business Combinations Overview

- IFRS 3 distinguishes between two types of acquisitions: asset acquisitions and business combinations
- This classification is important because it determines how the transaction is **recognized, measured, and disclosed** in the financial statements

Asset Acquisition	Business Combination
• An asset acquisition occurs when an entity purchases individual assets or groups of assets, and possibly certain liabilities, that **do not together constitute a business** • In these transactions, the acquired set does not include the processes necessary to generate outputs independently • Asset acquisitions apply a cost allocation approach, allocating the purchase price to assets acquired and liabilities assumed on a **relative fair value basis**	• A business combination occurs when an entity acquires an **integrated set of activities and assets that are capable of producing outputs** • This typically includes not only assets, but also the processes and systems needed to operate the business • A business combination must be accounted for using the **acquisition method**, which primarily requires recognition of identifiable assets and liabilities **at fair value** and recognition of goodwill or bargain purchase gain

Financial Statement Impact Overview

Area	Business Combinations	Asset Acquisitions	Rationale / Design Intent
Conceptual basis	Acquisition of a business (assets and substantive processes)	Acquisition of individual assets (and possibly liabilities)	Standard setters distinguish transactions based on whether a business is acquired
Overall framework	Integrated, transaction-level standard (IFRS 3)	Limited guidance (paragraph IFRS 3.2(b))	Absence of a unified asset acquisition framework
Initial measurement of assets and liabilities	Acquisition method with **fair value** measurement	Cost allocation based on **relative** fair values	Fair value considered more decision-useful when a business is acquired
Goodwill/gain on a bargain purchase	Recognized as a residual	Not recognized	Goodwill viewed as arising only when a business is acquired
Transaction costs	Expensed	Capitalized	Costs viewed as transaction-related rather than part of what is acquired
Deferred taxes	Recognized	Often not recognized (initial recognition exemption)	Consequence of fair value measurement framework

AcSB

Financial Statement Impact Overview

Area	Business Combinations	Asset Acquisitions	Source of Difference
Contingent consideration	Explicit guidance on recognition and subsequent measurement	No explicit guidance*	Lack of a comprehensive asset acquisition model
Measurement-period adjustments	Permitted (up to one year)	Not addressed*	No equivalent concept outside IFRS 3
Disclosure requirements	Extensive, transaction-specific disclosures#	No comparable disclosure package (often limited disclosure)*	Guidance gap rather than conceptual distinction
Acquisition of In-Process R&D	Generally capitalized at fair value at the acquisition date	Often expensed*	Capitalization in an asset acquisition depends on development-stage criteria
Consistency of outcomes	Greater consistency in practice	Greater variability in practice	Reliance on analogy and judgement

*Differences Driven by Lack of Guidance: These arise because asset acquisitions lack comprehensive, principle-based guidance. Potentially leading to diversity in practice, structuring opportunities, and reduced usefulness.
#Business combinations require detailed purchase price allocation disclosures and often include pro-forma financial information

Financial Statement User Perspectives

Key themes emerging from user discussions on the accounting for business combinations vs asset acquisitions:

Economics first — users focus on the transaction's economics: what was acquired, the rationale, the price paid, and whether subsequent performance meets expectations.

Definitions differ — accounting definitions distinguish business combinations from asset acquisitions, while securities-law definitions may also draw different boundaries; users often find these distinctions difficult to navigate

Classification unclear — users suggested that the concentration test can create outcomes that are difficult for users to reconcile with the underlying economics, particularly when similar acquisitions result in materially different disclosures

Measurement preference — some users viewed relative fair value allocation as less useful than measuring acquired assets at fair value in asset acquisitions

Disclosure gap — no single standard provides comprehensive disclosure requirements for asset acquisitions, creating an information gap when asset acquisitions are material

Reflections and Questions

Reflections

- IFRS 3 aims to provide useful information about business combinations, but accounting outcomes from acquisitions can differ from how users assess value creation
- Interactions between IFRS 3 and other standards may create outcomes that do not always align with how users evaluate acquisitions. Users frequently adjust reported information to understand recurring performance, cash flow generation, and whether management's acquisition objectives are being achieved. These recurring adjustments raise questions about whether aspects of the current recognition and measurement model continue to provide the most decision useful information over time
- While enhanced disclosures and presentation may improve transparency and help users understand acquisition-related accounting effects, the findings also raise broader questions about whether certain aspects of the current acquisition accounting model continue to provide the most decision useful information in the post-combination period. In particular, the recurring interactions identified between IFRS 3 and other Standards may suggest a need to consider whether targeted exceptions are the appropriate response, or whether the underlying recognition and measurement principles warrant broader reconsideration
- The measurement model and disclosure requirements for asset acquisitions warrant reconsideration to better meet users' information needs, particularly by providing greater transparency around classification, improving the relevance of measurement, and addressing the disclosure gap when asset acquisitions are material

AcSB

Questions

1. Do these findings and observations align with experiences and feedback in your jurisdiction?
    - If so, which areas are of greatest significance?
2. We have heard from users that some acquisition accounting outcomes do not always align with the way they evaluate acquisition. Does this observation resonate in your jurisdiction?
    - Are there specific recognition or measurement requirements that merit further consideration? If so, which areas are most significant from a user perspective?
    - To what extent could enhanced disclosure and presentation requirements address these concerns?
    - Several of the interactions discussed reflect differences between IFRS 3 and subsequent accounting requirements in other Standards. Do these interactions suggest a need for targeted exceptions, or do they raise broader questions about the underlying acquisition accounting model and its recognition and measurement principles?

Questions

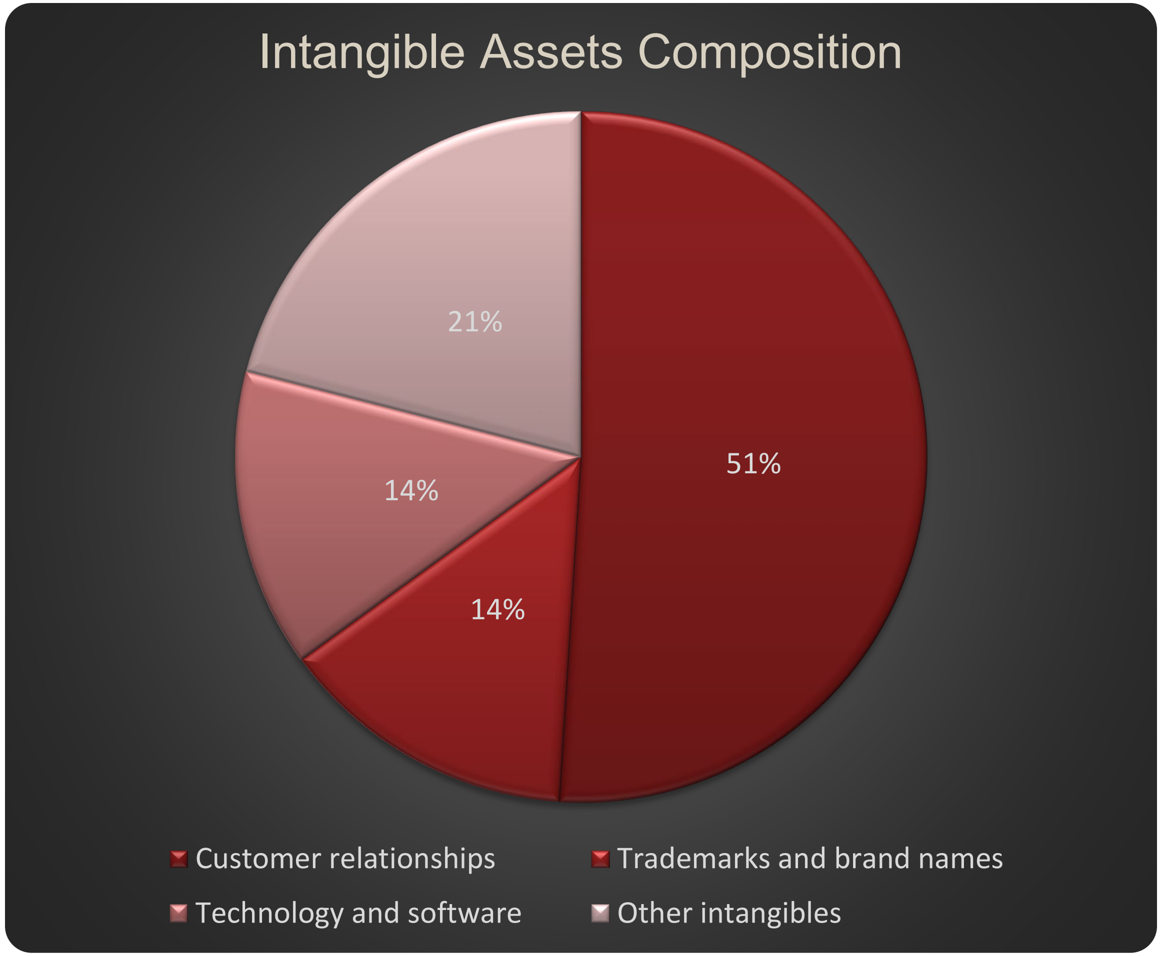
3. Do the findings regarding asset acquisitions align with feedback in your jurisdiction? What are the most significant concerns, if any?

4. Do you think the current measurement and disclosure requirements for asset acquisitions provide decision useful information to users? If not, which aspects would benefit most from reconsideration (i.e., classification, measurement, or disclosures) for material asset acquisitions?

AcSB

Appendix
Optional reading

Desktop Research: Intangible Assets and Goodwill in Canadian Business Combinations



Intangible Assets Drive Acquisition Value

44% average of total consideration paid

Represented by intangible assets (range: 0% to 91%)

Customer relationships

Valued highest in acquisition accounting

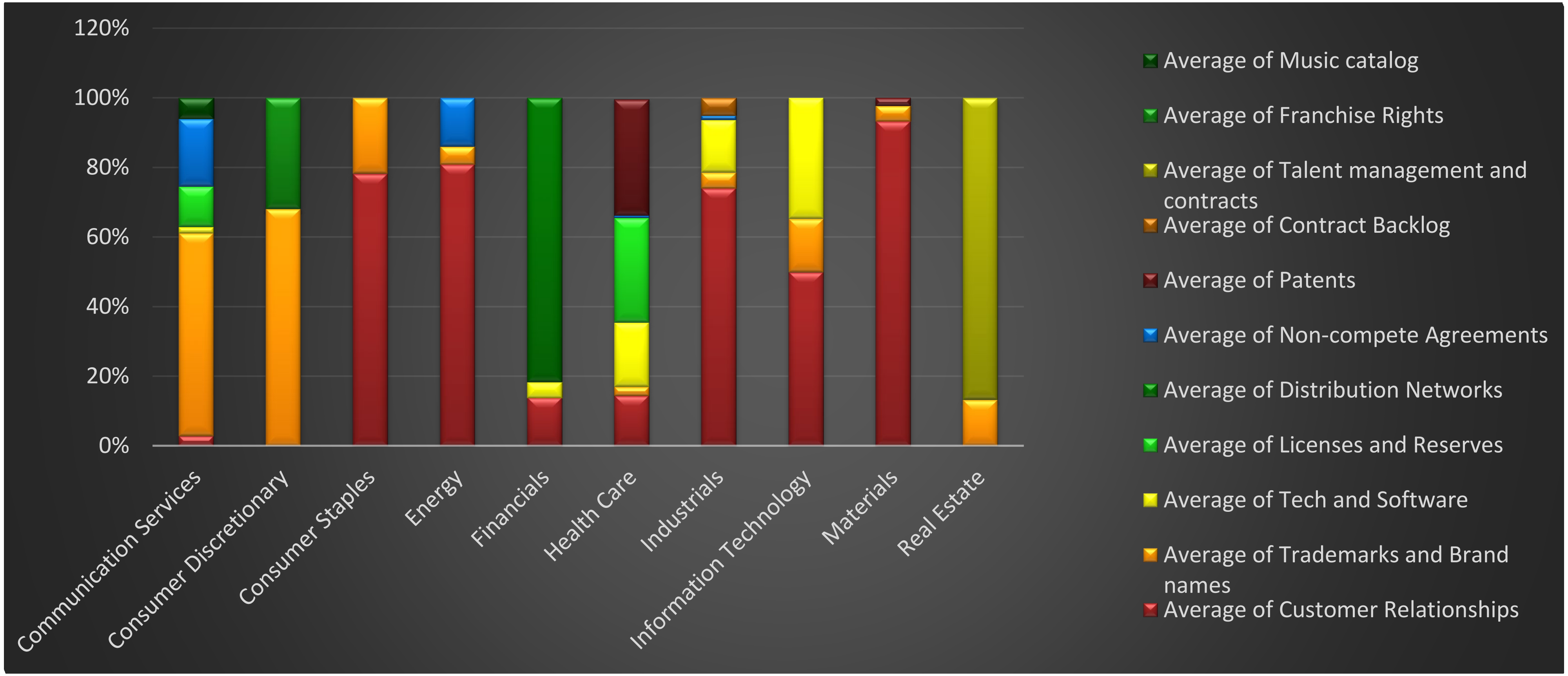
- **Customer relationships** are most valuable, reflecting importance of market presence and recurring revenue
- **Brand equity** represents 14% of intangible value, highlighting premium on reputation and positioning
- **Technology assets** account for 14%, demonstrating growing role of digital capabilities in acquisitions

AcSB

*The sample comprises entities with fiscal years ending in 2022, 2023, and 2024. Data were obtained from the purchase price allocation (PPA) note in the financial statements for the respective fiscal years. The acquisitions span a range of transaction sizes, from larger to smaller, and reflect activity across multiple industries; however, industry representation within the sample is not uniform. Accordingly, the research findings are not intended to provide precision at the industry level, but rather to highlight general directional sector trends and observations across the overall sample.

Desktop Research: Intangible Assets and Goodwill in Canadian Business Combinations

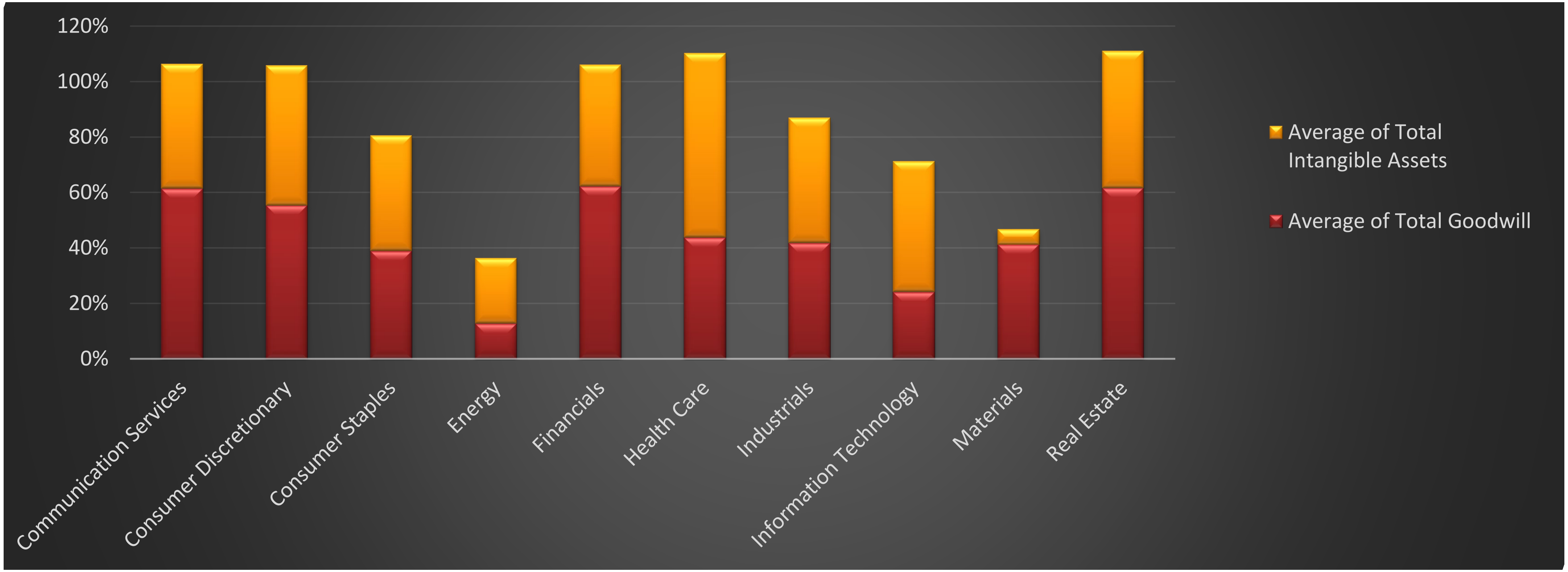
Industry breakdown of acquired intangible assets (% of total consideration paid)



*The sample comprises entities with fiscal years ending in 2022, 2023, and 2024. Data were obtained from the purchase price allocation (PPA) note in the financial statements for the respective fiscal years. The acquisitions span a range of transaction sizes, from larger to smaller, and reflect activity across multiple industries; however, industry representation within the sample is not uniform. Accordingly, the research findings are not intended to provide precision at the industry level, but rather to highlight general directional sector trends and observations across the overall sample.

Desktop Research: Intangible Assets and Goodwill in Canadian Business Combinations

Average Intangibles and goodwill as a percentage of total consideration



*The sample comprises entities with fiscal years ending in 2022, 2023, and 2024. Data were obtained from the purchase price allocation (PPA) note in the financial statements for the respective fiscal years. The acquisitions span a range of transaction sizes, from larger to smaller, and reflect activity across multiple industries; however, industry representation within the sample is not uniform. Accordingly, the research findings are not intended to provide precision at the industry level, but rather to highlight general directional sector trends and observations across the overall sample.

Initial Research Findings: Other Poor Interactions

Item	IFRS 3 Treatment	Other Standards Treatment	Resulting Conflict/ P&L Distortion
IFRS 17 Insurance Contracts acquired in settlement period	IFRS 3 requires treating as new contract under IFRS 17, even though insured event has already occurred		Revenue from settled insurance contracts inflated
IAS 12 Income Taxes	Uncertainty on whether acquired uncertain tax positions fall under IFRS 3's income tax exception and should be excluded from FV measurement		Uncertain treatment

AcSB