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Re: Exposure Draft - Relief from Recognition of Acquired Intangible Assets and Amortization of Goodwill

This submission is being made by the ESG and Sustainability Committee of the Financial Executives International Canada (FEI Canada).

FEI Canada has the following purpose:

“As an organization of professionals, FEI Canada's mission is to be the leading voice and informed choice for senior financial executives across the country by providing professional development, networking opportunities and thought leadership in delivering valuable “Canadian-centric” knowledge to our members.”

Our members serve as financial leaders in various industries and across a wide spectrum of entities in a global business environment. Consequently, our comments are neither industry-specific nor entity-specific, with an intent to provide an objective and informed opinion on aspects that will maximize value to all stakeholders.

We preface our comments on this Exposure Draft with the following general comments:

- Governments in Canada have properly identified economic growth as a high priority and have noted the importance of increased investment in infrastructure and technological development as key necessities to achieve growth. We endorse this position.
- Businesses must be nimble and innovative if they are to contribute to economic growth and invest in infrastructure and technological development. Business combinations will be a key avenue by which businesses deliver on this priority. These business combinations will be in many forms and sizes and encompass a range of strategies, objectives, tactics and structures. Providing flexibility in the Accounting Standard for

Business Combinations and in particular the shift away from a “one size fits all” approach is most welcome and we commend the AcSB for this initiative.

- In particular, relief from the costly and, in most cases, pointless breakdown of the purchase price into specific intangible assets, would be a positive step. A successful business has many moving parts and integrated activities/operations. It is rarely simply the sum of individually identified components, whether tangible, intangible, technological or other (e.g. an entity’s people are usually its greatest “asset”). It is the integration of these components that creates value and which has led to the aggregate purchase price.
- The current model imposes significant compliance costs, which are incurred not only in the year of the business combination but throughout the life of the separately recognized tangible and intangible assets through the annual amortization over the individually determined amortization periods plus the annual impairment testing. Often such valuations, both in the year of the business combination and annually over the life of the identified assets, require the engagement of external valuers. These are the direct costs related to past activities. Indirect costs can be even more significant as management and finance teams are distracted from value adding, future-oriented activities.
- In summary, we strongly support the proposed relief measures and found the supporting analysis to be complete and, in our view, makes a strong case in support of the proposals.

The remainder of this submission responds to the specific questions posed. Our comments on each of the questions are in bold print and are relatively brief as the underlying rationale has been outlined in this preface.

1. The AcSB proposes relief from recognition of all identifiable intangible assets acquired in a business combination (relief) to reduce the financial reporting burden. The Board proposes that the relief be provided as an accounting policy

choice, applied consistently across all business combinations. The Board also proposes that entities electing the relief are required to amortize goodwill.

- (a) Do you agree with the proposal to introduce optional relief? If not, why not? **Yes, we agree with the proposal to introduce optional relief.**
- (b) Do you agree with the proposal that the relief should be provided as an accounting policy choice? If not, why not? **Yes, we agree with the proposal that relief should be provided as an accounting policy choice. Our comments in the preface strongly support the shift away from a “one size fits all” approach.**
- (c) Do you agree with the proposal that the accounting policy choice to elect the relief be applied consistently across all business combinations? If not, why not? **To avoid “one size fits all”, we would prefer that the choice be available for each business combination as it is the nature of the combination that should determine the accounting policy choice. However, we understand the practicality of an entity wide choice and application and are not strongly opposed to this proposal.**
- (d) Do you agree with the proposal to require that entities electing the relief to also amortize goodwill? If not, why not? **Yes, we agree with the proposal to require amortization of goodwill. In a rapidly changing business, economic, political and technological world, neither goodwill nor intangibles hold value indefinitely and deplete rapidly if not backed by continued internal investment. Consequently, amortization is essential.**
- (e) Do you agree with the proposal to apply the relief to all identifiable intangible assets acquired in a business combination? If not, which types of identifiable intangible assets should be included in the scope of the relief and what criteria should be used to determine their

inclusion? **Yes, we agree with the proposal to apply the relief to all identifiable intangible assets acquired in a business combination. This is the only practical approach to achieve the desired cost reduction and simplification.**

2. The AcSB proposes adding disclosure requirements for entities electing the relief. These requirements include a general description of the nature of each qualitatively significant intangible asset included in goodwill that is readily identifiable. The Board also proposes that these disclosures be provided only in the year of the business combination.
 - (a) Do you agree with the proposed disclosure requirements? If not, why not and what alternatives should the Board consider? **Yes.**
 - (b) Do you agree with the proposal that these disclosures be provided only in the year of the business combination? If not, why not and what alternatives should the Board consider? **Yes.**
3. The AcSB proposes that goodwill amortization be provided as an accounting policy choice for entities not electing the relief, to be applied consistently across all business combinations. Do you agree with this proposal? If not, why not? **Given the rapidly changing business, economic, political and technological environment, our first preference would be an accounting standard mandating that all goodwill be amortized. Without a constant commitment to the soft costs that create business value and therefore goodwill, the value of acquired goodwill would disappear rapidly. However, we accept the practicality of the proposed approach given the intent of the exposure draft.**
4. The AcSB proposes that, for entities amortizing goodwill, goodwill is amortized on a straight-line basis over a default period of five years, unless the entity can

demonstrate that another useful life, not exceeding 10 years, is more appropriate.

- (a) Do you agree with the proposal to provide a default goodwill amortization period? If not, why not? **Yes. Although arbitrary, a default goodwill amortization period is appropriate to achieve simplicity and cost minimization. A simple, standardized policy for the goodwill amortization period makes it easier for users to understand the financial statements.**
 - (b) Do you agree with the proposal that the default goodwill amortization period be set at five years? If not, why not and what alternatives should the Board consider? **Yes, five years is consistent with our observations regarding today's rapidly changing business, economic, political and technological environment.**
 - (c) Do you agree with the proposal to limit the goodwill amortization period to 10 years? If not, why not and what alternatives should the Board consider? **Yes.**
 - (d) Do you agree with the proposed amendments to paragraph 3064.91 to require disclosures for goodwill subject to amortization? If not, why not and what alternatives should the Board consider? **Yes.**
5. The AcSB proposes to amend paragraph 1506.09 to allow an entity to change its accounting policies with respect to the relief and the subsequent measurement of goodwill without meeting the reliable and more relevant information criterion in paragraph 1506.06(b). The Board also proposes an optional simplified approach for entities voluntarily changing their accounting policy to no longer apply the relief. In addition, the Board proposes to require entities voluntarily changing their accounting to no longer amortize goodwill to apply this change in accounting policy prospectively.

- (a) Do you agree with the proposal to allow an entity to change its accounting policies with respect to the relief and the subsequent measurement of goodwill without meeting the reliable and more relevant information criterion in paragraph 1506.06(b)? If not, why not?
Yes.
- (b) Do you agree with the proposal to require entities voluntarily changing their accounting policies to use the relief or to amortize goodwill to apply the change retrospectively, as per the requirement in paragraph 1506.10(c)? If not, why not? **Yes.**
- (c) Do you agree with the proposal to provide an optional simplified approach for entities voluntarily changing their accounting policy to no longer apply the relief? If not, why not and what alternatives should the Board consider? **Yes. We commend AcSB for putting forward this simplified and practical approach. We would not expect a significant number of entities to make this choice.**
- (d) Do you think that the proposed Illustrative Example in Section 1582 is helpful in illustrating the application of the optional simplified approach for entities voluntarily changing their accounting policy to no longer apply the relief? If not, why not? **Yes.**
- (e) Do you agree with the proposal to require entities voluntarily changing their accounting policy to no longer amortize goodwill to apply this change prospectively? If not, why not? **Yes. This minimizes costs and is the simplest and most practical approach.**
6. The AcSB proposes amendments to paragraphs 1500.11 and 1501.12 to allow a first-time adopter to retrospectively apply the accounting policy choice to use the relief and/or to amortize goodwill at the date of transition to ASPE (or ASNPO) when it elects the business combinations exemption from

retrospectively applying [Section 1582](#). Do you agree with this proposal? If not, why not? **Yes.**

7. The AcSB proposes a consequential amendment to paragraph 3051.11. Do you think these consequential amendments adequately support the practical application of the equity method? If not, why not? **No comment. We have not had time to adequately address the practicality of this proposed amendment but conceptually it makes sense.**
8. The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2029, with earlier application permitted. The Board also proposes that the amendments be applied retrospectively.
 - (a) Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2029, with earlier application permitted? If not, why not? **Yes, as the option for early adoption provides flexibility.**
 - (b) Do you agree that the proposed amendments should be applied retrospectively? If not, why not? **Yes, as any alternative would be difficult for a reader to understand and we are of the view that retrospective application would not be unduly complex for the types of entities likely to embrace this relief.**

Thank you for considering our comments and recommendations.

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