



Exposure Draft **Proposed Accounting** **Standards for Private** **Enterprises**

Improvements to Accounting **for Common Control** **Combinations**

NOVEMBER 2022

COMMENTS TO AcSB MUST BE RECEIVED BY
JANUARY 31, 2023

We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by uploading your response letter via this [online form](#). Please address your response to:

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This Exposure Draft reflects proposals made by the Accounting Standards Board (AcSB). Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AcSB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

HIGHLIGHTS

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to amend RELATED PARTY TRANSACTIONS, [Section 3840](#) in Part II of the CPA Canada Handbook – Accounting (the Handbook).¹ These proposed amendments address accounting for:

- (a) a combination between enterprises or businesses under common control; and
- (b) financial assets acquired or financial liabilities assumed in a combination between enterprises or businesses under common control.

The amendments will apply to private profit-oriented enterprises applying the standards in Part II of the Handbook, as relevant.

Background

Accounting for combinations under common control

In March 2018, the AcSB decided to prioritize research on [Section 3840](#) based on feedback received from stakeholders in 2017, which ranked related party transactions as a high-priority topic. In 2018 and 2019, the Board heard from its [Private Enterprise Advisory Committee](#) that the guidance in [paragraph 3840.44](#) is unclear and often causes challenges in practice. Based on this feedback, the Board decided to form the Related Party Combinations Working Group to better understand and address the challenges stakeholders experience. Through these consultations, the Board learned of limitations on how much of BUSINESS COMBINATIONS, [Section 1582](#), can be used as [paragraph 1582.02\(b\)](#) specifically scopes out combinations between entities or businesses under common control. During subsequent consultations with its Committee, the Board also heard the requirement to retrospectively restate the comparatives in [paragraph 3840.44\(b\)](#) can be more onerous than accounting for these business combinations at the exchange amount.

After considering the advice of the Working Group and the Private Enterprise Advisory Committee, the AcSB proposes to amend [Section 3840](#) to address these issues. The Board will continue researching other issues stakeholders raised during its consultations and will consider addressing some or all these in subsequent proposals.

Accounting for financial instruments acquired in a combination under common control

In December 2018, the AcSB amended [Sections 3840](#) and FINANCIAL INSTRUMENTS, [Section 3856](#), to provide guidance on the initial and subsequent measurement of financial assets originated or acquired or financial liabilities issued or assumed in a related party transaction. In early 2022, the Board received stakeholder comments that how Sections 3840 and 3856 interact for common control combinations is unclear. These stakeholders questioned whether financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control should be measured using the principles in [paragraph 3840.44](#) or in Section 3856.

The [Private Enterprise Advisory Committee](#) advised the AcSB that the principles in [paragraph 3840.44](#) more appropriately reflect the economics of a common control transaction, especially when the acquirer records the acquired assets and liabilities at their carrying amount.

After considering the Private Enterprise Advisory Committee's advice, the AcSB proposes to amend [Sections 3840](#) and [3856](#) to make this clarification.

¹ Material that links to the CPA Canada Handbook is available to subscribers only. However, all information needed to respond is provided in this Exposure Draft.

Main features of the Exposure Draft

The following summarizes the proposed amendments:

Accounting for combinations under common control

- Allow all Section 1582 to be used for certain business combinations under common control by removing the reference to “exchange amount” in [paragraph 3840.44\(a\)](#); and
- Allow an option in [paragraph 3840.44\(b\)](#) to retrospectively restate all prior periods when carrying values are used to account for a combination or prospectively account for these transactions.

Accounting for financial instruments acquired in a combination under common control

- Clarify that financial assets acquired or financial liabilities assumed when a business is transferred between two enterprises under common control will be measured using the principles in [paragraph 3840.44](#).

Timing of adoption and transitional provisions

The AcSB expects to issue the final amendments in the third quarter of 2023. The proposals would apply for annual periods beginning on or after January 1, 2025, with early application permitted.

Consequential amendments

This Exposure Draft proposes to amend [paragraph 1582.02\(b\)](#) to permit the use of [Section 1582](#) when business combinations under common control meet certain criteria. It also proposes to amend [paragraphs 3856.04](#) and [3856.08](#) to clarify that the principles in [Section 3856](#) should not be used to initially measure financial assets acquired or financial liabilities assumed when a business is transferred between two enterprises under common control.

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consulting with the Board’s [Private Enterprise Advisory Committee](#). The Committee assists the Board in maintaining and improving Accounting Standards for Private Enterprises. The Board will also consult with other stakeholders such as its Working Group or through additional outreach activities such as holding roundtables.

The AcSB will provide updates about its deliberations in its decision summaries and on the [Related Party Combinations project page](#). Once the deliberation process is complete and the due process procedures for finalizing a standard are carried out, the AcSB plans to issue the amendments in September 2023 if no significant changes are required to the proposals.²

Comments requested

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in this Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

While the AcSB welcomes comments on all aspects of the proposal in this Exposure Draft, it particularly welcomes comments on the questions listed below:

² See the Due Process Specifically Related to Domestic Standards in the [AcSB Standard-Setting Due Process Manual](#).

Accounting for combinations under common control

1. The AcSB proposes removing the reference to “exchange amount” in [paragraph 3840.44\(a\)](#) so that business combinations under common control meeting specified criteria would be subject to the guidance in [Section 1582](#). Do you agree with the proposal to remove the reference to the exchange amount in [paragraph 3840.44\(a\)](#)? (See proposed [paragraph 3840.44\(a\)](#) and the consequential amendments.) If not, why not and what alternatives should the Board consider?
2. The AcSB proposes an option in [paragraph 3840.44\(b\)](#) either to retrospectively restate all prior periods when carrying values are used to account for a combination or to prospectively account for the transaction. The Board also proposes that enterprises only restate comparative information for the years during which the combining entities were under common control.
 - (a) Do you agree with the proposal in [paragraph 3840.44\(b\)](#) either to retrospectively restate all prior periods or to prospectively account for these combinations? If not, why not and what alternatives should the Board consider?
 - (b) Do you agree with the proposal in [paragraph 3840.44\(b\)](#) that enterprises only restate comparative information for the years during which the combining entities were under common control? If not, why not and what alternatives should the Board consider?

(See proposed [paragraph 3840.44\(b\)](#).)
3. The AcSB heard from its [Private Enterprise Advisory Committee](#) that additional guidance regarding business combinations between related entities that are not under common control and defining common control may be helpful in addressing application challenges. The Board recognizes including these issues may require a larger project that could delay addressing high-priority items. Therefore, the Board intends to continue research on other issues in [Section 3840](#) and will consider some or all these in subsequent proposals.
 - (a) Do you think that additional guidance regarding business combinations between related companies that are not under common control is needed to address application challenges? Why or why not?
 - (b) Are there any other issues regarding related party combinations in Section 3840 that you think the AcSB needs to address in subsequent proposals and why?

Accounting for financial instruments acquired in a combination under common control

4. The AcSB proposes to amend [Section 3840](#) to require financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control to be measured using the principles in [paragraph 3840.44](#). Do you agree with the proposal? If not, why not?

Transition

5. The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2025, with earlier application permitted. The Board also proposes that the amendments be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.
 - (a) Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2025, with earlier application permitted? If not, why not?
 - (b) Do you agree that the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied? If not, why not?

The deadline for submitting your comment letter to the AcSB is January 31, 2023. Comment on this document by uploading your response letter via this [online form](#).

PROPOSAL

Amendments would be made to the following Section as indicated below. This Exposure Draft denotes new text by underlining and deleted text by strikethrough.

RELATED PARTY TRANSACTIONS, Section 3840

PURPOSE AND SCOPE

...

.02 This Section does not apply to:

- (a) Management compensation arrangements, including employee future benefits accounted for in accordance with EMPLOYEE FUTURE BENEFITS, Section 3462, expense allowances and other similar payments, including loans and receivables, to individuals, in the normal course of operations.
- (b) Transactions between an enterprise preparing non-consolidated financial statements and subsidiaries:
 - (i) that are only controlled through means other than voting interests, potential voting interests, or a combination thereof, and
 - (ii) for which control is the only basis for the related party relationship.

Transactions with such enterprises are governed by other Sections, such as CONTRACTUAL OBLIGATIONS, Section 3280.

- (c) The measurement, recognition or derecognition of a financial asset originated or acquired, or a financial liability issued or assumed in a related party transaction (see FINANCIAL INSTRUMENTS, Section 3856) unless the financial asset is acquired or financial liability is assumed in a transaction when a business is transferred between two enterprises under common control (see paragraph 3840.44).

...

MEASUREMENT

.07A *An enterprise shall apply paragraphs 3840.08-.45 to determine whether non-financial items transferred in a related party transaction shall be measured at the carrying amount or exchange amount. The term "related party transaction" and references to items transferred shall be read to refer to non-financial items transferred in a related party transaction. Financial instruments transferred in a related party transaction shall be measured in accordance with FINANCIAL INSTRUMENTS, Section 3856, unless the financial asset is acquired or financial liability is assumed in a transaction when a business is transferred between two enterprises under common control (see paragraph 3840.44). Financial assets acquired or financial liabilities assumed in these transactions shall be measured using the principles in paragraph 3840.44.*

.07B *Except for transactions when a business is transferred between two enterprises under common control, ~~When~~ a related party transaction includes a financial instrument, any difference between the amounts recognized for the items exchanged in the transaction is accounted for in accordance with FINANCIAL INSTRUMENTS, Section 3856.*

...

Transaction not in the normal course of operations

...

- .44 Except as specified in SUBSIDIARIES, paragraph 1591.26A(a), a business transferred between two enterprises under common control is accounted for as follows:
- (a) ~~When the criteria in paragraph 3840.29 are met and the~~ The transaction is measured at the exchange amount, the business combination is accounted for in accordance with BUSINESS COMBINATIONS, Section 1582, when:
 - (i) the transaction is a monetary transaction, or a non-monetary transaction that has commercial substance;
 - (ii) the change in the ownership interests transferred is substantive; and
 - (iii) the amount of consideration paid or received is established and agreed to by related parties and is supported by independent evidence.
 - (b) When the criteria in paragraph ~~3840.29~~ 3840.44(a) are not met, the acquiring enterprise records the acquired assets and liabilities at their carrying amount in the balance sheet of the transferred business and, if appropriate, recognizes a non-controlling interest in accordance with NON-CONTROLLING INTERESTS, Section 1602. Any change in the non-controlling interest is recognized as an equity transaction in accordance with Section 1602. The financial statements of the combined enterprise reflect the earnings, assets and liabilities of the acquired enterprise:
 - (i) from the date that the transfer occurred; or
 - (ii) for the entire period in which the transfer occurred and for all prior periods during which the entities were under common control.

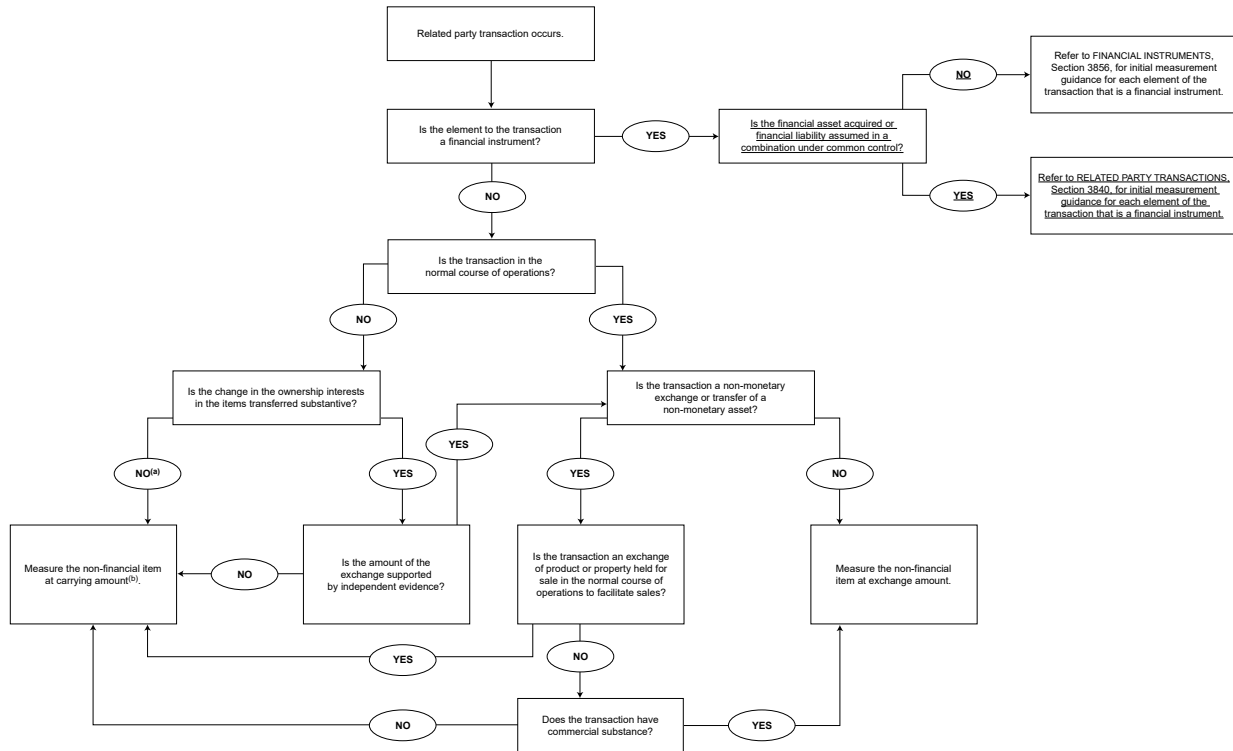
EFFECTIVE DATE AND TRANSITION

...

- .65 Amendments to paragraphs 3840.02, 3840.07A, 3840.07B and 3840.44 issued in [September 2023], apply prospectively to annual financial statements relating to fiscal years beginning on or after January 1, 2025. Earlier application is permitted. An entity applies these amendments to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.

DECISION TREE

This Decision Tree is illustrative only.



CONSEQUENTIAL AMENDMENTS TO ACCOUNTING STANDARDS FOR PRIVATE ENTERPRISES IN PART II OF THE CPA CANADA HANDBOOK – ACCOUNTING

The following consequential amendment to Part II of the Handbook has been identified. Additional text is denoted by underlining and deleted text by strikethrough.

BUSINESS COMBINATIONS, Section 1582

PURPOSE AND SCOPE

...

.02 This Section applies to a transaction or other event that meets the definition of a business combination. This Section does not apply to:

...

- (b) a combination between entities or businesses under common control accounted for in accordance with RELATED PARTY TRANSACTIONS, paragraph 3840.44(b);

...

FINANCIAL INSTRUMENTS, Section 3856

PURPOSE AND SCOPE

...

- .04 This Section does not apply to:
- (a) contracts to buy or sell non-financial items except for:
 - (i) exchange-traded futures contracts; and
 - (ii) contracts that are designated in a qualifying hedging relationship in accordance with paragraphs 3856.30-.36; ~~and~~
 - (b) non-financial assets and non-financial liabilities; and;
 - (c) initial measurement of financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control (see paragraph 3840.44).

...

MEASUREMENT

Initial measurement

...

Related party transactions

- .08 *Except as specified in paragraphs 3856.04(c), 3856.08C-.08D and 3856.09A, when a financial asset is originated or acquired or a financial liability is issued or assumed in a related party transaction, an enterprise shall initially measure it at cost. The cost of a financial instrument in a related party transaction shall depend on whether the instrument has repayment terms. When the financial asset originated or acquired or the financial liability issued or assumed:*
- (a) *has repayment terms, the cost of the instrument shall be determined using the undiscounted cash flow(s), excluding interest and dividend payments, of the instrument less any impairment losses previously recognized by the transferor;*
 - (b) *does not have repayment terms, the cost of the instrument shall be determined using the consideration transferred or received by the enterprise in the transaction (see paragraph 3856.08A).*

BASIS FOR CONCLUSIONS

Introduction

1. This document summarizes considerations that AcSB members deemed significant in reaching their conclusions to amend RELATED PARTY TRANSACTIONS, Section 3840 in Part II of the CPA Canada Handbook – Accounting. This document sets out the reasons the Board undertook to develop the amendments, the process of research and deliberation, the key decisions made and the principal reasons for adopting the positions taken and rejecting others.
2. In developing these proposals, the AcSB sought the advice of its Private Enterprise Advisory Committee (Committee) and Related Party Combinations Working Group (Working Group). The Committee includes financial statement users, auditors and preparers, with a range of backgrounds

and experience from across Canada. Members include representatives from organizations of differing sizes and in a variety of industries.

Background

Accounting for combinations under common control

3. During 2018 and 2019, the AcSB heard through consultations with its [Private Enterprise Advisory Committee](#) that the guidance in [paragraph 3840.44](#) is unclear and often causes challenges in practice. Stakeholders questioned whether there are limitations on how much of [Section 1582](#) can be used as [paragraph 1582.02\(b\)](#) specifically scopes out combinations between entities or businesses under common control.
4. In March 2019, in light of feedback from its [Private Enterprise Advisory Committee](#), the AcSB approved the [Related Party Combinations](#) project on the accounting for:
 - (a) business combinations under common control;
 - (b) business combinations between related parties that are not under common control; and
 - (c) related party combinations that do not comprise a business (commonly referred to as “asset deals”).
5. The AcSB formed a Working Group to better understand and address the challenges stakeholders experience. In addition, financial statement users were consulted to better understand what financial information they find useful regarding related party combinations.
6. Based on the feedback the AcSB heard from its Working Group and Private Enterprise Advisory Committee, the following issues with related party combinations were raised:
 - (a) *The exchange amount and reference to [Section 1582](#)*: When a business combination under common control meets the criteria in [paragraph 3840.44\(a\)](#), the transaction is measured at the exchange amount and accounted for using Section 1582. However, Section 1582 scopes out business combinations under common control. Therefore, it is ambiguous whether and to what extent Section 1582 should be used to account for parts of the transaction.
 - (b) *Scope*: The current guidance in [Section 3840](#) applies only to business combinations under common control. Expanding the scope of the guidance to include all related party combinations would be beneficial.
 - (c) *Definitions*: The standard does not define “common control”, which can lead to diversity in practice.
 - (d) *Retrospective restatement of comparatives when an enterprise uses carrying value*: The requirement to retrospectively restate the prior periods in [paragraph 3840.44\(b\)](#) when using carrying values to account for a combination is onerous and the benefits of this information may not outweigh the costs.
 - (e) *Option to apply the acquisition method*: An exception to the requirements in [paragraph 3840.44\(b\)](#) to permit the application of [paragraph 3840.44\(a\)](#) under certain circumstances would be beneficial.
7. After considering the advice of its Working Group and [Private Enterprise Advisory Committee](#), the AcSB explored potential solutions to address the concerns. In its deliberations, the Board sought more feedback from its Committee on whether all issues were of equal priority and whether the Board could undertake a project in phases.
8. The [Private Enterprise Advisory Committee](#) recommended the AcSB address how [Section 3840](#) and [Section 1582](#) interact and the need to retroactively restate comparatives when using carrying values in business combinations under common control. The Committee thought addressing these areas would provide the most benefit to stakeholders at this time. The Board agreed with its Committee

and decided it will continue researching other issues in Section 3840 after addressing the issues its Committee identified as a priority.

9. Therefore, the AcSB proposes to address the following issues identified as the highest priorities:
 - (a) the reference to the exchange amount in [paragraph 3840.44\(a\)](#) and the limited reference to Section 1582; and
 - (b) the requirement in [paragraph 3840.44\(b\)](#) to retrospectively restate comparatives when carrying values are used to account for a business combination.

Accounting for financial instruments acquired in a combination under common control

10. In December 2018, the AcSB amended [Sections 3840](#) and [3856](#) to provide guidance on the initial and subsequent measurement of financial assets originated or acquired or financial liabilities issued or assumed in a related party transaction. In early 2022, the Board received stakeholder comments that how Sections 3840 and 3856 interact for common control combinations is unclear. These stakeholders questioned whether financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control should be measured using the principles in [paragraph 3840.44](#) or in Section 3856.
11. In June 2022, in light of this feedback, the AcSB asked staff to consult with its [Private Enterprise Advisory Committee](#) to understand:
 - (a) whether there is confusion regarding how Sections [3840](#) and [3856](#) interact when measuring financial assets acquired or financial liabilities assumed if a business is transferred between two enterprises under common control;
 - (b) how enterprises are currently interpreting this interaction; and
 - (c) which measurement principles ([paragraph 3840.44](#) or Section 3856) are most appropriate to measure financial assets acquired or financial liabilities assumed in these transactions.
12. The [Private Enterprise Advisory Committee](#) shared that although there is confusion regarding how [Sections 3840](#) and [3856](#) interact when measuring financial assets acquired or financial liabilities assumed in these transactions, most enterprises measure these instruments using the principles in paragraph 3840.44. The Committee thought the principles in paragraph 3840.44 are most appropriate to measure financial assets acquired or financial liabilities assumed in these transactions because they more appropriately reflect the economics of a common control transaction, especially when the acquirer records the acquired assets and liabilities at their carrying amount. The AcSB agreed with its Committee that the principles in paragraph 3840.44 are most appropriate to measure financial assets acquired or financial liabilities assumed.

Effects analysis

Accounting for combinations under common control

The exchange amount and limited reference to Section 1582

13. The effect of the proposed amendment to remove the reference to the exchange amount in [paragraph 3840.44\(a\)](#) is not expected to change current practice for most enterprises. The AcSB heard from its [Private Enterprise Advisory Committee](#) that in most instances the exchange amount in business combinations under common control often approximates the fair value and that most preparers are currently following [Section 1582](#) for business combinations under common control that meet the criteria in [paragraph 3840.44\(a\)](#). Therefore, the Board expects limited interactions and disruptions to the current accounting for combinations subject to this proposed amendment.
14. The AcSB thinks that the proposed amendment will remove ambiguity about which aspects of

[Section 1582](#) an enterprise can use to account for a business combination under common control and support the consistency of financial reporting.

Option to restate comparative information

15. The AcSB acknowledges that the proposed amendment to allow an option to retrospectively restate the prior periods in [paragraph 3840.44\(b\)](#) may result in a change in practice for some enterprises. However, the Board expects this proposed amendment to allow enterprises to provide the most relevant information to their financial statement users and reduce their overall reporting burden.
16. The AcSB considered whether the proposed option could result in a loss of decision-useful information for financial statement users. Based on the feedback heard from its targeted user outreach, the Board noted that in most circumstances users consider enterprises' results on a go-forward basis. However, in some cases historical information can be beneficial for users to assess trends. Therefore, the Board thinks the proposed option will allow enterprises to work with their financial statement users to determine the most useful presentation approach.

Accounting for financial instruments acquired in a combination under common control

17. The proposed amendment to clarify the measurement of financial assets acquired or financial liabilities assumed in combination under common control is not expected to change practice for most enterprises. The AcSB heard from its [Private Enterprise Advisory Committee](#) that most enterprises measure these instruments using the principles in [paragraph 3840.44](#). Therefore, the Board expects limited interactions and disruptions to the current accounting for combinations subject to this proposed amendment.
18. The AcSB thinks the proposed amendment will clarify that financial assets acquired or financial liabilities assumed when a business is transferred between two enterprises under common control should be measured using the principles in [paragraph 3840.44](#).

Purpose and scope

Accounting for combinations under common control

The exchange amount and limited reference to Section 1582

19. The AcSB sought to clarify the scope and measurement of related party combinations in [paragraph 3840.44\(a\)](#) to address the extent to which:
 - (a) [Section 1582](#) should apply to parts of the transaction, given that the Section currently scopes out business combinations under common control; and
 - (b) the transaction should be measured at the exchange amount.
20. The AcSB first considered whether [paragraph 3840.44\(a\)](#) should apply only to business combinations under common control or to all related party business combinations. The Board's Working Group and [Private Enterprise Advisory Committee](#) highlighted the potential for unintended consequences if the scope was expanded beyond business combinations under common control. Therefore, the Board decided to maintain the current scope for paragraph 3840.44 to apply only to business combinations under common control.
21. The AcSB then considered feedback from its Working Group and [Private Enterprise Advisory Committee](#) that the interaction between using the exchange amount and applying the requirements of [Section 1582](#) is challenging. For example, Section 1582 is based on fair value principles, whereas [Section 3840](#) requires using exchange amount, which does not always approximate fair value. Similarly, an issue may arise when measuring contingent consideration in a business combination under common control. Under the current guidance, it is unclear whether the guidance in Section 1582 applies. The Board decided to address these concerns by removing the reference to "exchange

amount” altogether so that transactions meeting the criteria specified in [paragraph 3840.44\(a\)](#) are fully subject to the requirements in Section 1582.

22. The AcSB also considered its [Private Enterprise Advisory Committee](#)’s feedback that [paragraph 3840.44\(a\)](#) currently references the criteria in [paragraph 3840.29](#) to determine whether exchange amounts or carrying values should be used to account for business combinations under common control. Therefore, if the Board were to propose requiring Section 1582 in totality, any reference to exchange amount in paragraph 3840.29 could be confusing to apply. Therefore, the proposed amendment incorporates the criteria in paragraph 3840.29 directly into paragraph 3840.44(a). However, the Board decided not to incorporate the reference to transactions *not in the normal course of business* in the proposed criteria in paragraph 3840.44(a) because the Board thinks business combinations under common control are not carried out in the normal course of business.
23. The AcSB also proposes a consequential amendment to the scope of [Section 1582](#), by amending the scope limitation under [paragraph 1582.02\(b\)](#) that scopes out all combinations between entities or businesses under common control. The Board proposes to clarify that combinations between entities or businesses under common control accounted for in accordance with [paragraph 3840.44\(a\)](#) would apply all aspects of Section 1582.

Option to restate comparative information

24. The AcSB sought to reduce the reporting burden in [paragraph 3840.44\(b\)](#) that requires the retrospective restatement of all prior periods when using carrying values to account for the combination. The Board considered removing the requirement to retrospectively restate comparatives or to limit restatement to only the most recent comparative period presented on the financial statements. These potential solutions were also considered in relation to previous Board discussions on similar topics in Part I and Part III of the CPA Canada Handbook, and the interactions or consequences of the potential solutions with other standards in Part II of the Handbook. When the Board consulted users, they said in most circumstances, they do not require retrospective restatement. However, there may be instances when retrospective restatement is needed for trending information. Therefore, the Board proposes an option for prospective application or retroactive restatement for the comparative information in the years presented during which the entities were under common control. The Board thinks that providing options for retrospective restatement would allow entities to meet their specific user’s needs while simultaneously providing some entities relief from added reporting. The Board thinks this will benefit enterprises in situations where the acquiree’s historical information was not reported using Accounting Standards for Private Enterprises (ASPE) or when the historical information is incomplete.

Accounting for Financial Instruments acquired in a Combination under Common Control

25. In December 2018, the AcSB amended [Sections 3840](#) and [3856](#) to provide guidance on the initial and subsequent measurement of financial assets originated or acquired or financial liabilities issued or assumed in a related party transaction. However, in doing so, the Board created uncertainty regarding how financial assets acquired or financial liabilities assumed when a business is transferred between two enterprises under common control should be measured.
26. The AcSB first considered whether the principles in [Section 3840](#) or [Section 3856](#) are most appropriate when measuring financial assets acquired or financial liabilities assumed when a business is transferred between two enterprises under common control. At its June 2022 meeting, the Board confirmed that it did intend for the December 2018 amendments to Sections 3840 and 3856 to change the measurement of financial assets acquired or financial liabilities assumed in these transactions. They thought the principles in [paragraph 3840.44](#) are most appropriate for the measurement of financial assets acquired or financial liabilities assumed in these transactions because:
 - (a) They most faithfully represent the economics of the transaction; and
 - (b) It was not their intent for the 2018 amendments to Sections 3840 and 3856 to create different

measurement principles for one group of assets acquired or liabilities assumed in combinations under common control.

27. The AcSB also considered feedback from its Private Enterprise Advisory Committee that how [Sections 3840](#) and [3856](#) interact is unclear for combinations under common control and that the principles in [paragraph 3840.44](#) are most appropriate for the measurement of financial assets acquired or financial liabilities assumed in these transactions.
28. The AcSB also decided to consequentially amend Section 3856 to make clear that financial assets acquired or financial liabilities assumed in a combination under common control shall be measured using the principles in [paragraph 3840.44](#).

Effective date

29. The AcSB plans to issue the amendments into Part II of the Handbook in September 2023. Determining an effective date for amendments is an important step in the Board's due process. Considering the importance of the relief and the urgency of receiving it, the Board proposes that the amendments should be effective for fiscal years beginning on or after January 1, 2025. Based on the feedback heard that the proposals would result in limited change in practice and since the proposals provide reporting relief to enterprises, the Board thinks the adoption period is appropriate. The Board also proposes permitting earlier application, which includes financial statements not yet authorized for issue. Early adopting the proposed amendments provides enterprises an opportunity to apply the relief as business combinations under common control continue to occur.
30. The AcSB proposes that the amendments be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied. The Board decided on prospective application because this would be the least disruptive to current practice and would minimize the reporting burden on initial application of the amendments.

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