
Exposure Draft
Accounting Standards Board
Proposed Accounting Standards for Private Enterprises

Clarifications to Sections 1591 and 3056

May 2016

**COMMENTS TO THE AcSB MUST BE RECEIVED BY
AUGUST 2, 2016**

Respondents are asked to email their comment letters (in a Word file) to: ed_accounting@cpacanada.ca
Please address your comments 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 are related 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 SUBSIDIARIES, Section 1591, and INTERESTS IN JOINT ARRANGEMENTS, Section 3056 in Part II of the CPA Canada Handbook – Accounting as set out in this Exposure Draft.

Background

The proposed narrow-scope amendments are intended to clarify guidance or wording and to correct for unintended consequences, conflicts or oversights, similar to the process for annual improvements.

Main features of the proposals

The following summarizes the proposed amendments:

Subsidiaries, Section 1591

- The AcSB has learned that some stakeholders have interpreted the transition provisions in Section 1591 to mean that they may be applied when an enterprise changes its accounting policy choice to consolidation, as permitted by ACCOUNTING CHANGES, Section 1506, at any time in the future. However, the transition provisions in Section 1591 were developed for application only on transition to the new standard and when an enterprise prepares its first financial statements using accounting standards for private enterprises. The transition relief was provided:
 - to encourage enterprises currently using the cost method to consolidate their subsidiaries; and
 - for enterprises currently preparing consolidated financial statements that may identify additional subsidiaries not previously consolidated.

The proposed amendment clarifies that the transition provisions may not be applied when an enterprise changes its accounting policy choice to consolidate its subsidiaries at any time after initial application of Section 1591.

- Section 1591 does not explicitly state that enterprises preparing non-consolidated financial statements are not required to assess contractual arrangements for control. The proposed amendment clarifies that an enterprise is not required to assess whether contractual arrangements give rise to control when subsidiaries are not consolidated.
- Some stakeholders have noted that it is unclear how to account for the voting interest, if any, that an investor holds in a subsidiary controlled through a combination of voting rights and contractual arrangements when using paragraph 1591.24(b)(ii). The proposed amendment clarifies that the voting interest,

if any, that an investor holds in a subsidiary is accounted for using paragraph 1591.24(b)(i) when subsidiaries are not consolidated.

Interests in Joint Arrangements, Section 3056

- The transition provisions in Section 3056 were developed to provide relief only on transition to the new standard and when an enterprise prepares its first financial statements using accounting standards for private enterprises. The proposed amendment clarifies that the transition provisions may not be applied when an enterprise changes its accounting policy choice, as permitted by paragraph 3056.29, at any time after initial application of Section 3056.

Timing of adoption and transitional provisions

The AcSB expects to issue the final amendments in the fourth quarter of 2016. The amendments will be effective for years beginning on or after January 1, 2017. Earlier application is permitted. The AcSB intends that the amendments be applied retrospectively.

Comments requested

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.

While the AcSB welcomes comments on all changes proposed in this Exposure Draft, it particularly welcomes comments on the questions listed below.

1. Do you agree with the proposed amendment to SUBSIDIARIES, paragraph 1591.41A, to clarify that the transition provisions may not be applied when an enterprise changes its accounting policy choice to consolidate its subsidiaries at any time in the future? If not, why not?
2. Do you agree with the proposed amendments to SUBSIDIARIES, paragraph 1591.23A, to clarify that an enterprise is not required to assess whether contractual arrangements give rise to control when subsidiaries are not consolidated? If not, why not?
3. Do you agree with the proposed amendments to SUBSIDIARIES, paragraph 1591.24, to clarify how the voting interest, if any, that an investor holds in a subsidiary controlled through a combination of voting rights and contractual arrangements should be accounted for when subsidiaries are not consolidated? If not, why not?

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4. Do you agree with the proposed amendments to INTERESTS IN JOINT ARRANGEMENTS, paragraph 3056.43B, to clarify that the transition provisions may not be applied when an enterprise changes its accounting policy choice, as permitted by paragraph 3056.29, at any time in the future? If not, why not?

The deadline for providing your comment letter to the AcSB is August 2, 2016. You may email your comments (in a Word file) to: ed.accounting@cpacanada.ca.

Clarifications to Sections 1591 and 3056

PROPOSAL

Accounting standards for private enterprises would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough. Paragraphs that do not contain changes have been omitted, except where necessary to provide context for the proposed changes.

SUBSIDIARIES, Section 1591¹

RECOGNITION AND PRESENTATION

- .23A An enterprise that chooses, under paragraph 1591.24, not to consolidate its subsidiaries is not required to evaluate its contractual arrangements for evidence of control over another enterprise. An enterprise making such an accounting policy choice accounts for all of its interests in accordance with other applicable Sections depending on their nature, such as LEASES, Section 3065, or a financial asset, a financial liability (see FINANCIAL INSTRUMENTS, Section 3856) or an investment subject to significant influence (see INVESTMENTS, Section 3051).
- .24 *An enterprise shall make an accounting policy choice to either:*
- (a) *consolidate ~~its subsidiaries~~ (see CONSOLIDATED FINANCIAL STATEMENTS, Section 1601); or*
 - (b) *account for ~~its subsidiaries that are it controls through:~~*
 - (i) *~~controlled through~~ voting interests, potential voting interests, or a combination thereof, using the equity method (see INVESTMENTS, Section 3051) or the cost method (see INVESTMENTS, Section 3051); ~~and~~*
 - (ii) *~~controlled through~~ contractual arrangements ~~or in combination with voting interests, potential voting interests, or a combination thereof~~ according to the nature of contractual arrangements in accordance with the applicable Section, such as a lease (see LEASES, Section 3065), a financial asset or a financial liability (see FINANCIAL INSTRUMENTS, Section 3856) ~~or voting interest in item (i); and~~*

¹ Additional amendments to Section 1591 are proposed in the Exposure Draft, "[Subsidiaries & Investments](#)," issued in September 2015. The wording may change after the AcSB deliberates the comments received on that Exposure Draft.

(iii) voting interests, potential voting interests, or a combination thereof, in combination with contractual arrangements, in accordance with item (i) for the voting interests, potential voting interest, or a combination thereof, and in accordance with item (ii) for the contractual arrangements.

In making this accounting policy choice, the enterprise need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b).

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EFFECTIVE DATE AND TRANSITION

.39 Except as specified in paragraph 1591.39A, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2016. An enterprise applies this Section retrospectively, in accordance with ACCOUNTING CHANGES, Section 1506, except as specified in paragraphs 1591.40-.47. Earlier application is permitted.

.39A New paragraph 1591.23A and amendments to paragraphs 1591.24 and 1591.41A, issued in [Month] 2016, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2017. Earlier application is permitted.

...

.41A An enterprise can only apply paragraphs 1591.42-.47 when preparing its annual financial statements relating to the first fiscal year in which Section 1591 is effective.

.42 When an enterprise applies, or chooses to apply for the first time, an accounting policy to consolidate its subsidiaries, and concludes that it has subsidiaries that were not consolidated previously, the enterprise uses the methods set out below to measure the assets, liabilities and non-controlling interests in previously unconsolidated subsidiaries. For each previously unconsolidated subsidiary, the enterprise selects one method to measure the assets, liabilities and non-controlling interests of that subsidiary and uses financial information prepared in accordance with this Part of the Handbook.

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INTERESTS IN JOINT ARRANGEMENTS, Section 3056

EFFECTIVE DATE AND TRANSITION

- .43 Except as specified in paragraphs 3056.43A-B, ¶this Section applies to annual financial statements for fiscal years beginning on or after January 1, 2016. Earlier application is permitted. If an investor applies this Section before January 1, 2016, it discloses that fact and applies paragraphs 3051.14-.17 at the same time.
- .43A New paragraph 3056.43B, issued in [Month] 2016, applies to annual financial statements relating to fiscal years beginning on or after January 1, 2017. Earlier application is permitted.
- .43B An enterprise can only apply paragraphs 3056.44-.49 when preparing its annual financial statements relating to the first fiscal year in which Section 3056 is effective.

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