



Exposure Draft

Proposed Accounting Standards for Private Enterprises

Investments

September 2018

**COMMENTS TO THE AcSB MUST BE RECEIVED BY
DECEMBER 5, 2018**

Respondents are asked to email their comment letters (in a Word file) to:
info@acsbcanada.ca

Please address your comments to:

Lester Cheng, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

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 INVESTMENTS, Section 3051 in Part II of the CPA Canada Handbook – Accounting. This amendment will clarify that the guidance relating to the cost method in Section 3051 also applies to interests in jointly controlled enterprises accounted for using the cost method. This amendment would also apply to not-for-profit organizations using the standards in Part III of the Handbook, as relevant.

Background

In December 2016, INVESTMENTS, paragraph 3051.07A, was added to Part II of the CPA Canada Handbook – Accounting on how to apply the cost method to an investment subject to significant influence. INTERESTS IN JOINT ARRANGEMENTS, Section 3056, permits an investor with an interest in a jointly controlled enterprise to account for its interest using either the equity method or cost method as defined in Section 3051. Questions have arisen as to whether paragraph 3051.07A also applies to interests in jointly controlled enterprises, since they are also permitted to apply the cost method.

Main features of the Exposure Draft

The key features of the proposals are as follows:

Cost method

- Guidance on how to apply the cost method in Section 3051 would also apply to interests in jointly controlled enterprises.

Transition

- Retrospective application of the amendments to paragraph 3051.07A would be required in accordance with ACCOUNTING CHANGES, Section 1506.

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consultation 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 provide updates about its deliberations in its decision summaries and on the [project page](#).

Once the deliberation process is complete and the due process procedures for finalizing a standard are carried out, the Board plans to issue the amendments in the second quarter of 2019 if no significant changes are required to the proposals.¹ In that case, the proposed effective date of the amendments would be for fiscal years beginning on or after January 1, 2020, with earlier application permitted.

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 the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

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

1. Do you agree that paragraph 3051.07A be amended to include interests in jointly controlled enterprises? If not, why not?

¹ Refer to the Due Process Specifically Related to Domestic Standards in the [AcSB's Standard-Setting Due Process Manual](#).

2. Do you agree that the amendments to Section 3051 be applied retrospectively in accordance with ACCOUNTING CHANGES, Section 1506 (see paragraph 3051.44)? If not, why not?
3. Do you agree with the proposed effective date of fiscal years beginning on or after January 1, 2020? If not, why not?

The deadline for providing your comment letter to the AcSB is December 5, 2018. You may email your comments (Word format preferred) to info@acsbcanada.ca.

The following Section would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough

INVESTMENTS, Section 3051

...

INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE AND INTERESTS IN JOINTLY CONTROLLED ENTERPRISES

...

Cost method

.07A *An investor that elects to accounts for its investments subject to significant influence or its interests in jointly controlled enterprises using the cost method shall apply the following accounting to determine the initial measurement of the investment:*

- (a) *Cost shall be measured at the acquisition-date fair value of the consideration transferred to the other party in exchange for the investment or in exchange for the interest in a jointly controlled enterprise. Cost includes consideration transferred on the acquisition date and any consideration transferred before or after the acquisition date. Consideration includes monetary and non-monetary consideration. When an investment subject to significant influence or an interest in a jointly controlled enterprise is acquired by an exchange of only equity interests, the acquisition-date fair value of the investee's equity interests may be more reliably measurable than the acquisition-date fair value of the enterprise's equity interests. If so, the enterprise shall determine the fair value of the consideration transferred by using the acquisition-date fair value of the investee's equity interests instead of the acquisition-date fair value of the enterprise's equity interests transferred.*

...

- (c) *An investor sometimes obtains the ability to exercise significant influence or obtains joint control over an investee in which the investor previously held an interest. An investor may also acquire an additional interest in an investment subject to significant influence or a jointly controlled enterprise that does not result in acquiring control over the investee. In such cases, the cost of the resulting investment shall be the carrying amount of the investment immediately before the increase in the investor's interest plus the cost of the additional interest acquired, measured in accordance with this paragraph. In addition, the following accounting shall be applied:*
- (i) *The previously held interest in the investee shall not be remeasured.*
- (ii) *Acquisition-related costs on the previously held interest capitalized in accordance with FINANCIAL INSTRUMENTS, paragraph 3856.07, shall not be expensed but shall continue to be included in the carrying amount of the investment in an investee. However, acquisition-related costs on the additional interest shall be recognized as an expense in accordance with (b) above.*

The investor shall assess whether the cost of the additional interest acquired indicates that the carrying amount of the investment in an investee may be impaired (see paragraphs 3051.23-.27).

EFFECTIVE DATE AND TRANSITION

.39 Except as specified in paragraphs 3051.40-~~434~~, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

...

.44 Amendments to paragraph 3051.07A, issued in [TBD], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2020. An enterprise applies these amendment retrospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(d). Earlier application is permitted.

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