

## Detailed Review of Accounting Standards for Private Enterprises

**September 2025**

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**This Consultation Paper closes for comments on January 31, 2026.**

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The Accounting Standards Board (AcSB) welcomes feedback from interested parties on any or all questions posed in this Consultation Paper.

You can provide feedback to the AcSB on the proposals in a variety of ways:

- Participate in our [Connect.FRASCANADA.CA](https://connect.frascanada.ca) survey.
- Connect directly with the AcSB by attending a discussion session on this Consultation Paper. Session dates and registration information will be posted to the [Detailed Review of Accounting Standards for Private Enterprises](#) project page.
- Write a response letter and upload it via our [online form](#). Response letters can be addressed to:

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Note: Response letters will be posted online when this Consultation Paper closes for comment. Confidentiality can be requested when uploading letters via the online form.

Helpful tips when participating in a consultation:

- Comments are most helpful if they relate to a specific paragraph or group of paragraphs in the Consultation Paper.
- If you identify a potential issue in the proposals, we encourage you to clearly explain the issue and include a suggested alternative, supported by specific reasoning.
- The AcSB does not expect you to respond to every single question posed – only those to which you feel you can or should respond.



The AcSB is an independent body with the authority to establish accounting standards for use by all Canadian entities outside the public sector. For further details on the Board, please visit our [website](#).

The [AcSB's 2022-2027 Strategic Plan](#) sets out the broad objectives that will guide the Board in achieving its public interest mandate. The Board decided on these objectives after extensive consultation with interested and affected parties. Implementation plans to execute these strategies will be described in its [annual plans](#).

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## INTRODUCTION

1. The objective of the AcSB's [Detailed Review of Accounting Standards for Private Enterprises \(ASPE\)](#) project is to simplify the application of ASPE while maintaining the usefulness of the financial statements for entities of all sizes and complexities.
2. Through this Consultation Paper, the AcSB aims to achieve this objective by identifying the most complex ASPE requirements, where the Board's cost/benefit threshold is not met and the issue is pervasive among private entities.<sup>1</sup> Specifically, this Consultation Paper sets out the issues the Board has heard to date. For each issue that falls within this project's scope, the Consultation Paper proposes practical solutions to simplify the standards, particularly benefiting smaller entities. The Board will assign a priority level to each of the proposed solutions and will consider this assessment when setting its work plans in the coming years.
3. A [summary](#) of the issues identified to date and the AcSB's proposed solutions is provided, as is a more [detailed discussion and analysis](#) of each issue.

## BACKGROUND

### The AcSB's 2022-2027 Strategic Plan

4. One of the core strategies in the AcSB's [2022-2027 Strategic Plan](#) is to deliver relevant and high-quality accounting standards that promote confidence in the information reported by Canadian entities. As part of this strategy, the Board committed to exploring scaling the standards for non-listed entities to better meet their diverse reporting needs. The Board noted that entities vary widely in size and complexity; therefore, the information needs of financial statement users can vary significantly.

### Consultation Paper I, "Exploring Scalability in Canada"

5. In March 2023, the AcSB released the [Consultation Paper I, "Exploring Scalability in Canada"](#) (the Scalability Consultation Paper), which aimed to identify key issues and explore potential solutions for scaling the standards. The Board sought feedback from a range of interested and affected parties, including financial statement users, practitioners and preparers from private enterprises, not-for-profit organizations and pension plans.
6. In the [Scalability Consultation Paper](#), the AcSB proposed four ways to incorporate scalability into the CPA Canada Handbook – Accounting:

Solution 1: Tiering within the existing [Part II](#) and [Part III](#) frameworks – Simplified recognition and measurement in selected standards.

Solution 2: Tiering within the existing Part II and Part III frameworks – Reduced disclosure requirements.

Solution 3: Intermediary accounting framework option between IFRS® Accounting Standards and Parts II and III.

Solution 4: Introduction of a new framework for small entities.

7. Through outreach on the [Scalability Consultation Paper](#), the AcSB received the most support for Solution 1. The Board repeatedly heard that several standards in Part II of the Handbook are challenging to apply or result in information that is not useful to financial statement users.

<sup>1</sup> FINANCIAL STATEMENT CONCEPTS, paragraph [1000.13](#), states: "The benefits expected to arise from providing information in the financial statements should exceed the cost of doing so."

Respondents noted that introducing tiering in Part II might reduce financial reporting challenges while still meeting users' needs. The Board heard similar feedback through outreach on other projects and activities.

8. The AcSB also received some support for Solution 2, as some respondents thought that the Board should consider reduced disclosure requirements along with simplified recognition and measurement requirements. The Board received little support for Solutions 3 and 4 and decided not to pursue them further.
9. In response to this feedback, the AcSB initiated a new project – a [Detailed Review of ASPE](#) – to identify the most complex requirements in [Part II](#) of the Handbook and to explore practical solutions to reduce their complexity while maintaining the overall usefulness of the information produced for users.

## Purpose of this Consultation Paper

10. This Consultation Paper outlines the key issues identified based on feedback from interested and affected parties and presents potential solutions to these issues that the AcSB is considering. This Consultation Paper seeks to gather feedback to ensure the Board has a complete picture of the issues within the [scope](#) of this project, and that any proposed solutions are feasible and effectively address the concerns raised.
11. The AcSB will evaluate the feedback received on this Consultation Paper and determine which solutions it should develop into standard-setting projects. The Board will then consider the Consultation Paper feedback when setting future project priorities.
12. In considering the feedback from this Consultation Paper, the AcSB might propose to address issues in one or more of the following ways:
  - (a) **Consider the issue(s) as part of an existing standard-setting project (either on the current work plan or the Board's future projects list).** For example, if there is an existing project on a similar topic, the Board might expand the scope of that project to include an issue.
  - (b) **Bundle several issues together in one Exposure Draft.** The AcSB may use this approach when it is best to address several issues through narrow-scope amendments.
  - (c) **Initiate separate projects and/or develop separate consultation papers for issues to explore them further.** The AcSB may use this approach for issues that are complex or broader in scope.

Therefore, this Consultation Paper will likely result in multiple standard-setting projects (and, ultimately, exposure drafts).

## How the AcSB identified issues

13. In this Consultation Paper, the AcSB consolidated feedback received to date on all standards in ASPE. The Board received feedback from several sources, including:
  - [responses](#) to the Scalability Consultation Paper;
  - comment letters on other ASPE consultation papers and exposure drafts;
  - discussions with the AcSB's [Medium and Small Practitioners Advisory Committee](#), [Not-for-Profit Advisory Committee](#) and [Private Enterprise Advisory Committee](#); and
  - feedback from other various engagement and outreach conducted with other interested and affected parties.

## Scope of the project

14. The AcSB developed a framework to identify which issues it intends to address within the scope of its [Detailed Review of ASPE](#) project. It is critical to establish a clear scope for this project, as the Board does not intend for this project to resolve every issue identified within each standard in [Part II](#) of the Handbook and it would not be practical to do so.
15. In line with the AcSB's strategic objective around scalability, the project's scope focuses on unnecessarily complex, onerous and/or costly requirements in [Part II](#) of the Handbook while considering the needs of and benefits for financial statement users.
16. Figure A illustrates the scoping approach the AcSB developed. The scoping approach is meant to identify the most significant and widespread issues that entities face when applying [Part II](#) of the Handbook. The scoping approach also clarifies the types of issues that the Board will address through its [guidance framework](#) for domestic standards, rather than through this project. The Board intends for this framework to serve as a guide rather than strict rules, and therefore the Board must apply judgment when evaluating the scoping framework. Detailed explanations on how to apply this decision tree are provided below.

### Figure A – Scoping framework

The numbered criteria in this decision tree maps its corresponding description in Table 1.

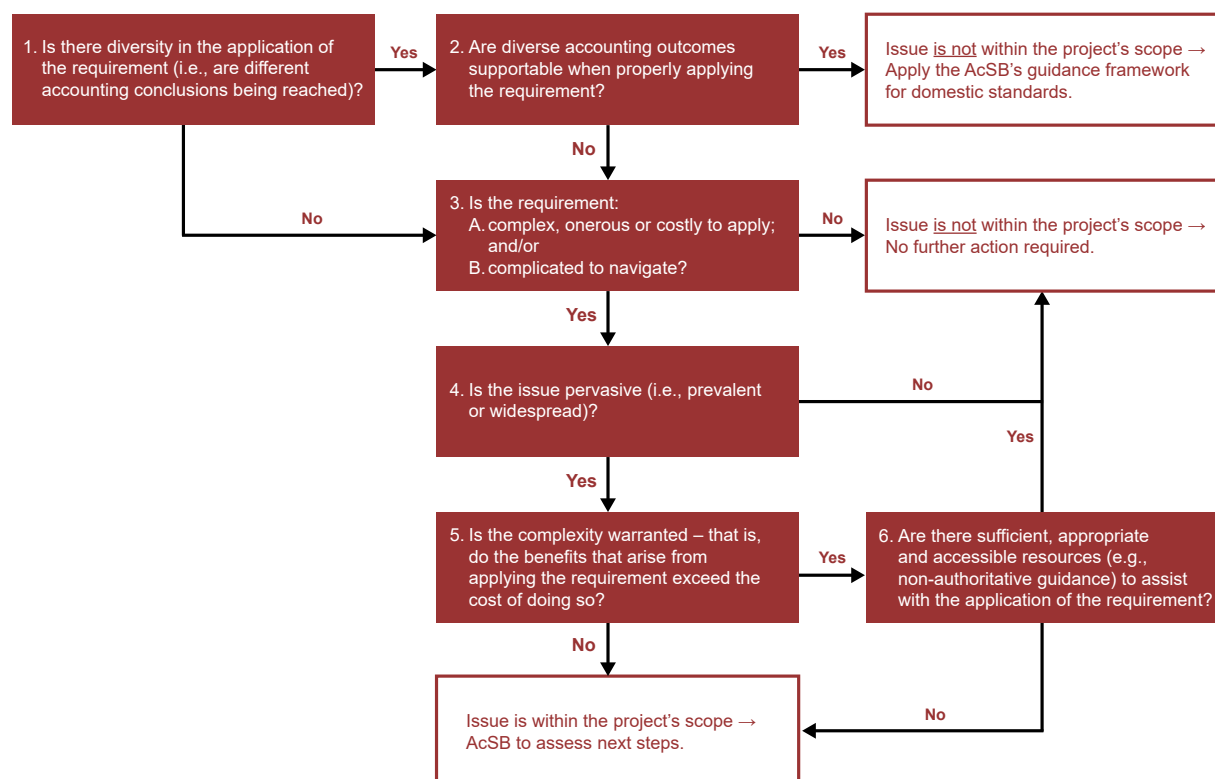


Table 1 – Scoping framework descriptions

| Criteria | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1        | <ul style="list-style-type: none"> <li>The AcSB evaluates each issue to determine whether there is diversity in practice and, if so, the cause of such diversity.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 2        | <ul style="list-style-type: none"> <li>When diversity exists, the reason for the diversity impacts whether the issue is in the scope of this project, the <a href="#">guidance framework</a> for domestic standards, or if it warrants no further action.</li> <li>The AcSB considers whether reasonable interpretations of the standard are leading to diverse conclusions.</li> <li>If diverse accounting outcomes are supportable, the issue may fall within the scope of the <a href="#">guidance framework</a>.<sup>2</sup></li> <li>If diverse accounting outcomes are not supportable, the issue may fall within this project's scope, provided this diversity is caused by unnecessarily complex requirements.</li> </ul> |
| 3        | <ul style="list-style-type: none"> <li>The AcSB deems a requirement complex to apply or navigate if it is technically challenging to analyze, requires significant effort to apply or understand and/or leads to high costs (e.g., external consultants or significant internal resources).</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 4        | <ul style="list-style-type: none"> <li>The AcSB does not aim to resolve all issues interested and affected parties have with each standard in <a href="#">Part II</a> of the Handbook.</li> <li>This criterion ensures that this project is influential, focusing on prevalent issues that affect many entities.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                       |
| 5        | <ul style="list-style-type: none"> <li>A standard might warrant complicated requirements when it results in a faithful representation of the economics of the transaction and/or provides useful information for financial statement users.</li> <li>This criterion ensures that the AcSB addresses only unwarranted complexity as part of this project.</li> </ul>                                                                                                                                                                                                                                                                                                                                                               |

2 The [guidance framework](#) for domestic standards lists the following criteria for an issue to be considered by the AcSB:

- The issue is prevalent;
- There is diversity in practice; and
- The accounting outcome will impact financial statement users' decisions.

For this Consultation Paper, the Board *did not* assess whether issues meet all the criteria to be considered through the guidance framework.

| Criteria | Description                                                                                                                                                                                                                                                                                                                                                                                                     |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6        | <ul style="list-style-type: none"> <li>The AcSB considered the sufficiency of illustrative examples that accompany a standard, as well as publicly available resources, such as other Board-issued resources, publicly available firm guidance and similar materials.</li> <li>If useful resources are insufficient, the AcSB might consider developing additional guidance as part of this project.</li> </ul> |

## DETAILED REVIEW OF ASPE

### Standards with no significant application issues raised

17. As noted [earlier](#) in this Consultation Paper, the ASPE application issues were identified through feedback received from several sources. As part of this feedback, interested and affected parties have not identified any significant application challenges with the following standards. This list allows respondents to highlight any challenges the Board may not have considered that might be within the project's scope:

- GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, [Section 1100](#)
- GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION, [Section 1400](#)
- FIRST-TIME ADOPTION, [Section 1500](#)
- DISCLOSURE OF ACCOUNTING POLICIES, [Section 1505](#)
- ACCOUNTING CHANGES, [Section 1506](#)
- MEASUREMENT UNCERTAINTY, [Section 1508](#)
- CURRENT ASSETS AND CURRENT LIABILITIES, [Section 1510](#)
- INCOME STATEMENT, [Section 1520](#)
- BALANCE SHEET, [Section 1521](#)
- CASH FLOW STATEMENT, [Section 1540](#)
- SUBSIDIARIES, [Section 1591](#)
- CONSOLIDATED FINANCIAL STATEMENTS, [Section 1601](#)
- NON-CONTROLLING INTERESTS, [Section 1602](#)
- COMPREHENSIVE REVALUATION OF ASSETS AND LIABILITIES, [Section 1625](#)
- FOREIGN CURRENCY TRANSLATION, [Section 1651](#)
- UNINCORPORATED BUSINESSES, [Section 1800](#)
- INVESTMENTS, [Section 3051](#)
- INTERESTS IN JOINT ARRANGEMENTS, [Section 3056](#)
- PROPERTY, PLANT AND EQUIPMENT, [Section 3061](#)
- SHARE CAPITAL, [Section 3240](#)
- EQUITY, [Section 3251](#)
- RESERVES, [Section 3260](#)
- CONTRACTUAL OBLIGATIONS, [Section 3280](#)
- CONTINGENCIES, [Section 3290](#)

- CAPITAL TRANSACTIONS, [Section 3610](#)
- GOVERNMENT ASSISTANCE, [Section 3800](#)
- INVESTMENT TAX CREDITS, [Section 3805](#)
- SUBSEQUENT EVENTS, [Section 3820](#)
- NON-MONETARY TRANSACTIONS, [Section 3831](#)
- ECONOMIC DEPENDENCE, [Section 3841](#)
- INTEREST CAPITALIZED – DISCLOSURE CONSIDERATIONS, [Section 3850](#)
- ACCOUNTING GUIDELINE (AcG) 2, Franchise Fee Revenue
- DISCLOSURE OF GUARANTEES, [AcG-14](#),
- OIL AND GAS ACCOUNTING – FULL COST, [AcG-16](#)
- INVESTMENT COMPANIES, [AcG-18](#)
- DISCLOSURES BY ENTITIES SUBJECT TO RATE REGULATION, [AcG-19](#)
- CUSTOMER'S ACCOUNTING FOR CLOUD COMPUTING ARRANGEMENTS, [AcG-20](#)
- ACCOUNTING FOR LIFE INSURANCE CONTRACTS WITH CASH SURRENDER VALUE, [AcG-21](#)

## Application issues addressed by current or potential future AcSB projects

- During its outreach on the [Scalability Consultation Paper](#), the AcSB received feedback on application challenges related to certain standards that the Board thinks are best addressed through projects already on its current or future workplan. These standards, along with links to the relevant projects on the Board's website, are listed below.
- The AcSB encourages interested and affected parties to provide feedback on these projects. For details on upcoming outreach events, please visit the respective project pages.

**Table 2 – Application issues addressed by current or potential future AcSB projects**

| Standard                                                     | Project/research                                                                  |
|--------------------------------------------------------------|-----------------------------------------------------------------------------------|
| FINANCIAL STATEMENT CONCEPTS, <a href="#">Section 1000</a>   | <a href="#">Financial Statement Concepts</a>                                      |
| BUSINESS COMBINATIONS, <a href="#">Section 1582</a>          | <a href="#">Subsequent Measurement of Goodwill and Acquired Intangible Assets</a> |
| AGRICULTURE, <a href="#">Section 3041</a>                    | <a href="#">Amendments to Section 3041</a>                                        |
| GOODWILL AND INTANGIBLE ASSETS, <a href="#">Section 3064</a> | <a href="#">Subsequent Measurement of Goodwill and Acquired Intangible Assets</a> |

## AcSB's approach to related party transactions

20. The AcSB heard that entities face many challenges with several aspects of the requirements in RELATED PARTY TRANSACTIONS, [Section 3840](#), as well as the requirements for related party financial instruments in FINANCIAL INSTRUMENTS, [Section 3856](#). Based on its preliminary analysis, the Board recognizes that many of these issues might individually meet the project's scoping criteria. However, due to the volume of issues with related party transactions and the significant work effort likely required to address them, the Board thinks it should address these issues as part of a separate project. The Board will determine the scope and priority level of this project when setting its overall future project priorities and workplan. The Board welcomes feedback from respondents on the priority of this topic in response to [Question 12](#) below.

## Retractable or mandatorily redeemable shares issued in a tax planning arrangement (ROMRS)

21. The AcSB has received feedback on application challenges related to the ROMRS requirements in [Section 3856](#). The Board is gathering information to determine if a post-implementation review of these requirements is necessary. Interested and affected parties are encouraged to visit the FRAS Canada website for updates on this project. Since the Board is already researching issues with ROMRS through its post-implementation-review process, it is not seeking feedback on these issues through this Consultation Paper.

## Considerations for developing proposed solutions

22. For each issue deemed to be within the scope of the [Detailed Review of ASPE](#), the AcSB proposed a solution it thinks will appropriately and efficiently address the issue. The Board developed a list of possible solutions and considerations for when each solution would be appropriate. These are intended to guide the Board but are not definitive rules that override its judgment.

**Table 3 – Considerations for developing proposed solutions**

| Solution                                      | Considerations                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Introduce optionality</b>                  | <ul style="list-style-type: none"> <li>The requirement is challenging for some entities to apply (e.g., smaller or less complex entities).</li> <li>The introduction of options will not significantly reduce the usefulness of the financial statements.</li> </ul>                                                                                                                    |
| <b>Simplify the requirement</b>               | <ul style="list-style-type: none"> <li>Overall, the requirement is too complex for most entities to apply, regardless of an entity's size, complexity or industry.</li> <li>Simplifying the requirement will not significantly reduce the usefulness of the financial statements.</li> </ul>                                                                                            |
| <b>Review the drafting of the requirement</b> | <ul style="list-style-type: none"> <li>The requirement provides a suitable basis for entities to provide useful information to users.</li> <li>The drafting of the requirement is complicated to navigate (i.e., the drafting could be simplified to improve its understandability).</li> <li>Once an entity understands the requirement, it is not overly complex to apply.</li> </ul> |

| Solution                                            | Considerations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Release guidance and/or educational material</b> | <ul style="list-style-type: none"> <li>The requirement warrants complexity because it results in a faithful representation of the economics of the transaction and useful information for financial statement users.</li> <li>Sufficient, appropriate and accessible resources to assist with the application of the requirement are not available.</li> <li>When recommending this solution, the AcSB does not expect the guidance or educational materials to alter the underlying requirement or its application.</li> </ul> |

## Application issues addressed in this Consultation Paper

23. This section of the Consultation Paper analyzes the ASPE application issues raised by interested and affected parties and discussed by the AcSB. The Board evaluated whether each issue falls within the project's scope and, if so, applied the considerations outlined above to propose a practical solution. The standards appear in numerical order.
24. The AcSB seeks your input on its analysis of these issues. The Board is also interested in hearing about any additional application issues that you think might fall within the project's scope.

## Summary of application issues addressed in this Consultation Paper

25. The AcSB recognizes that certain issues outlined in this Consultation Paper may only apply to specific types of entities. The Board encourages respondents to focus on the topics relevant to them and to respond to those issues and proposed solutions.
26. To help readers navigate this Consultation Paper, the table below summarizes the key issues and the proposed solutions. The summary table is followed by an in-depth analysis of each issue, including an overview of the relevant requirements in the standard, preliminary feedback received, and the AcSB's proposed solutions (if any) to address the identified concerns. The summary table links to the detailed analysis in this Consultation Paper for each issue.

**Table 4 – Proposed solutions by standard and issue**

| Standard                             | Issue description                                                                                                | Proposed solution                                                                                                                                                                          |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>INVENTORIES,<br/>Section 3031</b> | <b>Issue 1a:</b> Allocating overhead costs to the cost of inventories is challenging.                            | Explore an <b>accounting policy choice</b> that would allow entities to exclude overhead costs from the cost of manufactured inventories.                                                  |
|                                      | <b>Issue 1b:</b> Disclosing the amount of inventories recognized as an expense during the period is challenging. | Issue is <b>outside the project's scope</b> . Consider replacing this disclosure requirement with something that better meets users' needs as part of a separate standard-setting project. |

| Standard                                      | Issue description                                                                              | Proposed solution                                                                                                                                                                                                       |
|-----------------------------------------------|------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063 | <b>Issue 2a:</b> There is diversity in determining when an impairment test is required.        | Propose <b>no changes</b> to the requirements, but to <b>develop guidance</b> on identifying whether events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. |
|                                               | <b>Issue 2b:</b> Performing the impairment test is challenging.                                | Propose <b>no changes</b> to the requirements, but to <b>develop guidance</b> on performing the tests for recoverability and the fair value test.                                                                       |
| LEASES, Section 3065                          | <b>Issue 3:</b> Straight-line recognition of rent expense for operating leases is challenging. | No action proposed as the issue is <b>outside the project's scope</b> .                                                                                                                                                 |
| ASSET RETIREMENT OBLIGATIONS, Section 3110    | <b>Issue 4a:</b> Measuring asset retirement obligations (AROs) is challenging.                 | No action proposed as the issue is <b>outside the project's scope</b> .                                                                                                                                                 |
|                                               | <b>Issue 4b:</b> There is diversity in discount rates used to measure AROs.                    | No action proposed as the issue is <b>outside the project's scope</b> .                                                                                                                                                 |
| REVENUE, Section 3400                         | <b>Issue 5a:</b> Applying the percentage of completion method is challenging.                  | For both issues, explore an <b>accounting policy choice</b> that would expand the applicability of the completed contract method to contracts meeting certain criteria.                                                 |
|                                               | <b>Issue 5b:</b> Accounting for multiple element arrangements is challenging.                  |                                                                                                                                                                                                                         |

| Standard                                                                       | Issue description                                                                                                                                                                           | Proposed solution                                                                                                                                                                                                                  |
|--------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>EMPLOYEE FUTURE BENEFITS, Section 3462</b>                                  | <b>Issue 6a:</b> Accounting for individual pension plans as defined benefit plans is challenging.                                                                                           | No action proposed as the issue is <b>outside the project's scope</b> .                                                                                                                                                            |
|                                                                                | <b>Issue 6b:</b> Preparing the disclosure requirements for defined benefit plans is challenging.                                                                                            | No action proposed as the issue is <b>outside the project's scope</b> .                                                                                                                                                            |
|                                                                                | <b>Issue 6c:</b> The accounting requirements for termination benefits are often misapplied.                                                                                                 | Propose <b>no changes</b> to the requirements for termination benefits but consider <b>reviewing the drafting</b> of the requirements for understandability and <b>developing guidance</b> to raise awareness of the requirements. |
| <b>INCOME TAXES, Section 3465</b>                                              | <b>Issue 7a:</b> Preparing the disclosure requirements when applying the taxes payable method is challenging.                                                                               | Propose <b>developing additional guidance</b> to illustrate the required level of detail in this disclosure.                                                                                                                       |
|                                                                                | <b>Issue 7b:</b> Applying the future income taxes method is challenging.                                                                                                                    | No action proposed as the issue is <b>outside the project's scope</b> .                                                                                                                                                            |
|                                                                                | <b>Issue 7c:</b> There is no guidance in ASPE on the accounting for uncertain tax treatments.                                                                                               | Issue is <b>outside the project's scope</b> . Continue to monitor this issue and consider addressing it as part of a separate standard-setting project.                                                                            |
| <b>DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475</b> | <b>Issue 8a:</b> The accounting requirements for the disposal of long-lived assets are often misapplied because entities often view them as part of the discontinued operations assessment. | <b>Review the drafting</b> of the requirements for the disposal of long-lived assets and explore separating them into their own standard for greater visibility.                                                                   |
|                                                                                | <b>Issue 8b:</b> Applying the requirements for discontinued operations is challenging.                                                                                                      | No action proposed as the issue is <b>outside the project's scope</b> .                                                                                                                                                            |

| Standard                                                                     | Issue description                                                                                                                               | Proposed solution                                                                                                                                                                                                                                  |
|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>FINANCIAL INSTRUMENTS, Section 3856</b>                                   | <b>Issue 9a:</b> Measuring the fair value of loans with non-market interest rates is challenging.                                               | Explore an <b>accounting policy choice</b> that would allow entities to measure financial liabilities with non-market interest rates at face value (i.e., the present value of future cash flows, discounted using the contractual interest rate). |
|                                                                              | <b>Issue 9b:</b> Determining the fair value of derivatives when a quoted market price from a derivatives dealer is not provided is challenging. | No action proposed as the issue is <b>outside the project's scope</b> .                                                                                                                                                                            |
|                                                                              | <b>Issue 9c:</b> The application guidance on liabilities and equity classification is often misapplied.                                         | <b>Review the drafting</b> of the application guidance related to classification of financial instruments as liabilities or equity.                                                                                                                |
|                                                                              | <b>Issue 9d:</b> Assessing whether an arrangement meets the criteria to qualify for hedge accounting is challenging.                            | No action proposed as the issue is <b>outside the project's scope</b> .                                                                                                                                                                            |
|                                                                              | <b>Issue 9e:</b> The disclosure of financial risks is often boilerplate.                                                                        | No action proposed as the issue is <b>outside the project's scope</b> .                                                                                                                                                                            |
| <b>STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870</b> | <b>Issue 10:</b> Measuring employee stock options and other equity instruments in stock-based compensation plans is challenging.                | No action proposed as the issue is <b>outside the project's scope</b> .                                                                                                                                                                            |

## Detailed analysis of application issues

### INVENTORIES, Section 3031

#### **Issue 1a – Allocating overhead costs to the costs of inventories**

##### ***The standard's requirements***

27. Entities are required to measure inventories at the lower of cost or net realizable value. [Section 3031](#) requires that the cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The standard further requires that the costs of conversion of inventories include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods (paragraph 3031.10-.11 and 3031.13-.15).

##### ***Issue description and analysis***

28. The requirement to allocate overhead costs to inventories is extensively applied, including by entities engaged in the manufacturing of goods. While [Section 3031](#) is clear and explicit, the AcSB heard that compliance with the requirement is often burdensome and costly for entities. For example, the allocation of labour can be particularly challenging when owners and related parties participate in production but may not track their activities precisely or receive a salary that can be allocated with sufficient accuracy.
29. The AcSB heard that, in most cases, financial statement users would find the financial statements equally useful if an entity expensed overhead costs instead of allocating them to inventories. Therefore, overall, the Board thinks this issue is within the project's scope because, for some entities, the benefits of applying this requirement do not exceed the costs.

##### ***Proposed solution***

30. The AcSB proposes exploring an accounting policy choice that would allow entities to exclude overhead costs from the cost of manufactured inventories. This would align with the existing policy choice available for agricultural inventories under AGRICULTURE, [Section 3041](#).

#### **Question 1 – Allocating overhead costs to the costs of inventories**

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with allocating overhead costs to the costs of inventories?
- (b) Do you have any comments on the AcSB's proposal to explore an accounting policy choice that would allow entities to exclude overhead costs from the cost of manufactured inventories?
  - (i) If you disagree with this proposal, what solution(s) would you recommend, and why?
  - (ii) If you agree with the AcSB's proposal, do you think this accounting policy choice should be available to all entities, or should there be qualifying criteria to ensure users' information needs are met? If you think there should be restrictions on this accounting policy choice, what should they be, and why?

## **Issue 1b – Disclosing the amount of inventories expensed during the period**

### ***The standard's requirements***

31. Entities are required to disclose the amount of inventories recognized as an expense during the period, which is often referred to as “cost of sales.” This amount consists of those costs previously included in the measurement of inventory that has now been sold and unallocated production overheads and abnormal amounts of production costs of inventories. In some circumstances, an entity may also include other amounts, such as distribution costs (paragraph 3031.35(c) and 3031.37).

### ***Issue description and analysis***

32. The AcSB heard that many entities face difficulties in disclosing the amount of inventories recognized as an expense during the period, in part due to confusion around what the standard requires entities to include in this amount. To fulfill this requirement, the Board heard that many entities report cost of sales that include expenses not directly tied to inventories (e.g., freight, equipment leases and subcontractor costs). Some entities also indicated that the information required to accurately determine the amount of inventories recognized as an expense during the period is not explicitly tracked. The Board heard that this is particularly challenging when inventories are measured at net realizable value.
33. Although the AcSB recognized during the development of the standard that some variation might be appropriate in certain situations, such as the inclusion of additional amounts like distribution costs, the intention was for the requirement to be applied consistently overall. However, despite this diversity in practice, the Board heard from financial statement users that while there are some flaws with the information produced from this disclosure requirement, they still generally find the information useful in helping them understand an entity’s inventory-related expenses. The users noted that they would not want the Board to remove this disclosure requirement unless they replace it with something that better meets their needs. For example, users have expressed that a more detailed breakdown of cost of sales would provide more useful information than the current disclosures.
34. The AcSB noted that this disclosure requirement also exists under [Section 3041](#) and proposed removing it as part of its Exposure Draft, “[Amendments to Section 3041, Agriculture](#).” The Board thinks the benefits and costs of applying this disclosure requirement differ between entities applying Section 3031 and agricultural producers applying Section 3041. This disclosure requirement is relatively new for agricultural producers, and the Board has learned that for many smaller agricultural producers, the operational complexity involved in gathering the data needed to prepare the disclosure makes it difficult to comply with the requirement.<sup>3</sup>
35. The AcSB thinks this issue is **outside the project’s scope** as it thinks the benefits of providing this disclosure exceed the cost of preparing it. The Board proposes retaining this disclosure requirement until it undertakes a project to replace it with something that better meets users’ needs, such as a detailed breakdown of cost of sales. The Board might explore developing this new disclosure requirement as part of a separate future project since it would not fall within the scope and mandate of the Detailed Review of ASPE.

<sup>3</sup> Section 3041 is a new standard for agricultural producers. The AcSB issued the standard in November 2019, and the standard was effective for fiscal years beginning on or after January 1, 2022.

**Question 1.1 – Disclosing the amount of inventories expensed during the period**

- (a) Do you have any comments on the AcSB's analysis of the feedback on challenges with disclosing the amount of inventories expensed during the period?
- (b) Do you have any comments on the AcSB's proposal to retain this disclosure requirement and to consider replacing it in the future with a new disclosure requirement that better meets users' needs, such as a detailed breakdown of costs of sales? If you disagree with this proposal, what solution(s) would you recommend, and why?

**Question 1.2 – Other issues with inventories**

Are there any other financial reporting issues in [Section 3031](#) that you think the AcSB should address as part of this project? If so, please describe the issue, explain why it is within the project's scope, and suggest how the Board could address the issue.

**IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063****Issue 2a – Determining when an impairment test is required*****The standard's requirements***

- 36. Entities are required to test long-lived assets for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The standard lists examples of such events or changes in circumstances (paragraphs 3063.09-.10).

***Issue description and analysis***

- 37. The AcSB heard that many private entities, particularly smaller ones, are reaching diverse conclusions on whether an impairment test is required because some experience challenges assessing if a long-lived asset may not be recoverable. While the standard provides some examples of impairment indicators, the examples are not exhaustive. As a result, the Board heard that some entities find it challenging to identify other relevant indicators or may apply the examples too narrowly, leading to inconsistent application. Overall, this is an area that inherently requires the use of judgment, and the Board thinks that it would be challenging to eliminate this judgment.
- 38. Entities are required to test the recoverability of an asset whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There is no intentional flexibility or optionality in this requirement, despite the need to apply judgment. The AcSB intends to address this type of diversity in practice through this project as this indicates that the standard's requirements might be challenging to understand or apply. Overall, the Board thinks this requirement is necessary to ensure long-lived assets are appropriately tested for impairment. Impaired assets may not be appropriately measured if the requirements are simplified.

***Proposed solution***

- 39. The AcSB proposes making **no changes** to this requirement as the Board thinks it is necessary to ensure long-lived assets are appropriately tested for impairment.
- 40. Instead, the AcSB proposes **developing guidance** on identifying whether events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable as sufficient, appropriate and accessible resources to assist with the application of the requirement are not available.

## Question 2 – Identifying indicators of impairment

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with identifying indicators of impairment of long-lived assets?
- (b) Do you have any comments on the AcSB's proposal to develop guidance to assist with the application of this requirement?
  - (i) If you disagree with this proposal, what solution(s) would you recommend, and why?
  - (ii) If you agree with the AcSB's proposal, where do you think the additional guidance should be included – as an illustrative example that accompanies the standard, or as an external resource outside the Handbook? Please explain your preference, including how your suggested approach would best support consistent application.

## **Issue 2b – Performing the impairment test**

### ***The standard's requirements***

- 41. Entities are required to recognize an impairment loss when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the asset's use and eventual disposal. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value (paragraphs 3063.04-.07).

### ***Issue description and analysis***

- 42. The AcSB heard that some entities find it challenging to perform the undiscounted cash flow test to assess recoverability. The Board heard that the requirement itself is straightforward and that entities do not find it challenging to understand what the standard requires them to do. However, the Board heard that implementing this requirement is challenging for some entities as projecting future cash flows often requires them to apply judgment and make assumptions. The Board heard that there is insufficient guidance available to assist entities with performing this test, resulting in inconsistent application of the requirement.
- 43. The AcSB heard similar feedback about estimating the fair value of long-lived assets. Determining the fair value of long-lived assets can be particularly challenging when an entity must apply more complex valuation techniques, such as when a quoted market price in an active market is not available.
- 44. Overall, the AcSB thinks these requirements are necessary to ensure long-lived assets are measured appropriately on the balance sheet and simplifying them could result in less useful information for users.

### ***Proposed solution***

- 45. The AcSB proposes making **no changes** to these requirements as the Board thinks they are not challenging to understand, and they provide a suitable basis for entities to appropriately measure the value of their long-lived assets on their balance sheets.
- 46. Instead, the AcSB proposes **developing guidance** on performing the recoverability assessment and the fair-value test as sufficient, appropriate and accessible resources to assist with the application of these requirements are not available.

**Question 2.1 – Performing the impairment test**

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with performing the impairment test for long-lived assets?
- (b) Do you have any comments on the AcSB's proposal to develop guidance to assist with the application of these requirements?
  - (i) If you disagree with this proposal, what solutions(s) would you recommend, and why?
  - (ii) If you agree with the AcSB's proposal, where do you think the additional guidance should be included – as an illustrative example that accompanies the standard, or as an external resource outside [Part II](#) of the Handbook? Please explain your preference, including how your suggested approach would best support consistent application.

**Question 2.2 – Other issues with impairment of long-lived assets**

Are there any other financial reporting issues in [Section 3063](#) that you think the AcSB should address as part of this project? If so, please describe the issue, explain why it is within the project's scope and suggest how you think the Board could address the issue.

**LEASES, Section 3065****[Issue 3](#) – Straight-line recognition of rent expense for operating leases*****The standard's requirements***

- 47. Entities are required to recognize rent expense for leases classified as operating leases on a straight-line basis over the term of the lease. The standard acknowledges that circumstances may indicate that another basis is required to appropriately reflect the time pattern in which the user derives benefit from the leased asset (paragraph 3065.24).

***Issue description and analysis***

- 48. The AcSB heard that some private entities, particularly smaller ones, find the recognition of rent expense on a straight-line basis to be onerous in situations when they have a high volume of leases with contractual terms requiring payments of differing timing and amount. This is due to the need to maintain and track separate lease amortization schedules, which some interested and affected parties indicated is burdensome.
- 49. The AcSB thinks this issue is **outside the project's scope** as it thinks this requirement is not unduly burdensome or complex and is in line with the accrual basis of accounting. Therefore, the Board thinks the requirement to recognize rent expense for operating leases on a straight-line basis over the lease term should remain in place. The Board proposes taking no further action.

**Question 3 – Straight-line recognition of rent expense**

- (a) Do you have any comments on the AcSB's analysis of feedback on the straight-line recognition of rent expense for operating leases?
- (b) Do you have any comments on the AcSB's proposal to take no further action because this issue is outside the project's scope? If you disagree with this proposal, what solution(s) would you recommend, and why?

**Question 3.1 – Other issues with leases**

Are there any other financial reporting issues in [Section 3065](#) that you think the AcSB should address as part of this project? If so, please describe the issue, explain why it is within the project's scope and suggest how you think the Board could address the issue.

**ASSET RETIREMENT OBLIGATIONS, Section 3110****Issue 4a – Measuring AROs*****The standard's requirements***

- 50. Entities are required to recognize an ARO in the period in which it is incurred when a reasonable estimate of the amount of the obligation can be made. An entity measures the obligation using the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The best estimate of this obligation is the amount that an entity would rationally pay to settle it at the balance sheet date or to transfer it to a third party at that time. The standard includes guidance on common techniques for measuring AROs and notes that the present value of future cash flows associated with the ARO is often the best available technique (paragraphs 3110.05 and 3110.09-.14).

***Issue description and analysis***

- 51. The AcSB heard that there is often a high degree of complexity and estimation uncertainty associated with the measurement of AROs. Some of the reasons for these challenges include difficulty in projecting future costs, market fluctuations, technological advancements and regulatory changes.
- 52. Although it can be challenging to measure an ARO, the AcSB thinks the standard's requirements are necessary to faithfully represent the entity's future obligations and provide important information to financial statement users. For example, a user that is considering purchasing a business might be missing material information if an entity fails to recognize an ARO based on management's best estimate. A lender might require this information to assess an entity's solvency, risk profile and potential future financing needs. Entities would also be expected to disclose the measurement uncertainty associated with AROs to provide complete information to users.
- 53. The AcSB thinks this issue is **outside the project's scope** because the complexity in measuring an ARO is warranted to provide useful information to financial statement users. The Board proposes taking no further action.

**Question 4 – Estimation uncertainty associated with measuring AROs**

- (a) Do you have any comments on the AcSB's analysis of feedback on estimation uncertainty associated with measuring AROs?
- (b) Do you have any comments on the AcSB's proposal to take no further action because this issue is outside the project's scope? If you disagree with this proposal, what solution(s) would you recommend, and why?

**Issue 4b – Discount rates used to measure AROs*****The standard's requirements***

- 54. When applying the present value technique to estimate the expenditure required to settle an ARO, an entity should incorporate the following elements into its analysis:
  - (a) an estimate of the future cash outflows expected with regard to the obligation;
  - (b) expectations about possible variations in the amount or timing of those cash outflows; and
  - (c) the time value of money, represented by the current market risk-free rate of interest, for maturity dates that coincide with the expected cash flows.
- 55. [Section 3110](#) provides two approaches for computing the present value of the ARO:
  - (a) The traditional approach: adjustments for uncertainties in the amount and timing of cash outflows are embedded in the discount rate.
  - (b) The expected cash flow approach: uncertainties in the amount and timing of cash outflows are reflected in risk-adjusted cash flows (paragraphs 3110.A23 and 3110.A25).

***Issue description and analysis***

- 56. The AcSB heard that, in practice, there is diversity in discount rates used by entities to measure the present value of future cash flows associated with AROs. The Board heard that this diversity might be caused by a lack of clear guidance in [Section 3110](#) on what discount rate to use.
- 57. The AcSB intends for entities to apply judgment when measuring an ARO. This includes applying judgment to determine an appropriate discount rate when applying the present value technique. Any attempt to standardize discount rates may restrict flexibility in selecting the most appropriate discount rate for the specific characteristics of an ARO, potentially leading to less relevant and useful information. The Board thinks that users are primarily concerned with knowing the discount rate used and the approach to determine this rate. This transparency allows them to assess the assumptions made and make informed adjustments to their valuation models. This information is provided to users through existing discount rate disclosures.
- 58. The AcSB thinks this issue is **outside the project's scope** because the use of diverse discount rates is supportable when properly applying the requirements, and any attempt to standardize discount rates may restrict flexibility in selecting the most appropriate rate. Therefore, the Board proposes taking no further action.

**Question 4.1 – Diversity in discount rates used**

- (a) Do you have any comments on the AcSB's analysis of feedback on diversity in discount rates used to measure an ARO?
- (b) Do you have any comments on the AcSB's proposal to take no further action because this issue is outside the project's scope? If you disagree with this proposal, what solution(s) would you recommend, and why?

**Question 4.2 – Other issues with AROs**

Are there any other financial reporting issues in [Section 3110](#) that you think the AcSB should address as part of this project? If so, please describe the issue, explain why it is within the project's scope and suggest how you think the Board could address the issue.

**REVENUE, Section 3400****Issue 5a – Applying the percentage of completion method*****The standard's requirements***

59. Entities are required to recognize revenue from the rendering of services and long-term contracts using either the percentage of completion method or the completed contract method. The method used should most accurately match the revenue recognized with the work accomplished. The percentage of completion method should be used when performance consists of the execution of more than one act, and revenue should be recognized proportionately to the performance of each act. Revenue recognized under this method should be determined on a rational and consistent basis using the method that best reflects the pattern of performance. The completed contract method is only appropriate when performance consists of the execution of a single act or when an enterprise cannot reasonably estimate the extent of progress toward completion (paragraphs 3400.06 and 3400.17-18).

***Issue description and analysis***

60. The AcSB heard that applying the percentage of completion method can be challenging for some entities because determining the most appropriate measurement basis and tracking progress toward completion can be complex. When assessing whether this complexity is warranted, the Board considered the financial reporting needs for long-term contracts and short-term service contracts separately.
61. For long-term contracts, such as many construction contracts, the AcSB thinks the complexity involved with applying the percentage of completion method is warranted. This method provides more useful information to both entities and users about contracts in progress as it allows them to assess the profitability of contracts over time and allows for early identification of unprofitable contracts. Therefore, the Board thinks the complexity involved with accounting for long-term contracts using the percentage of completion method is outside the scope of this project as the benefits of doing so generally exceed the costs.
62. For short-term service contracts, the AcSB thinks the complexity involved with applying the percentage of completion method is often unwarranted, particularly when an entity has a high volume of such contracts. Entities might be putting in considerable effort to track their progress toward completion of these contracts even though their overall reported revenue would not be materially different under the completed contract method. Therefore, the Board thinks the

complexity involved with accounting for short-term contracts using the percentage of completion method is within the scope of this project as the benefits of doing so often do not exceed the costs.

### ***Proposed solution***

63. The AcSB proposes exploring an **accounting policy choice** that would expand the applicability of the completed contract method to contracts meeting certain criteria, including having a total duration below a certain threshold. In developing this proposal, the Board's focus would be on developing qualifying criteria that ensure entities continue to apply the percentage of completion method if it results in more useful information.

### **Question 5 – Applying the percentage of completion method**

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with applying the percentage of completion method?
- (b) Do you have any comments on the AcSB's proposal to explore an accounting policy choice that would expand the applicability of the completed contract method to contracts meeting certain criteria?
  - (i) If you disagree with this proposal, what solution(s) would you recommend, and why?
  - (ii) If you agree with the AcSB's proposal, what criteria do you think contracts should meet to qualify for the completed contract method?

## **Issue 5b – Accounting for multiple element arrangements**

### ***The standard's requirements***

64. When a single sales transaction involves the delivery or performance of multiple products, services or rights to use assets, the revenue recognition criteria in [Section 3400](#) should be applied to the separately identifiable components. An entity allocates the arrangement consideration at the inception of the arrangement to all deliverables on a relative stand-alone selling price basis. The stand-alone selling price is the price at which an enterprise would sell the good or service separately to a customer (paragraphs 3400.11 and 3400.A8-.A9).

### ***Issue description and analysis***

65. The AcSB heard that accounting for multiple element arrangements can be challenging as significant judgment may be required to identify the different components of the contract, determine their stand-alone selling price and determine the most appropriate revenue recognition basis for each component. This issue is pervasive as multiple element arrangements are common in practice.
66. For similar reasons to those highlighted in [Issue 5a](#), the AcSB thinks the complexity of accounting for multiple element arrangements might not be warranted when performance of all the elements is achieved over a short period of time. Conversely, the Board thinks the complexity of accounting for multiple element arrangements is often warranted when each of the elements is significant and/or some elements are delivered over a long period of time.

**Proposed solution**

67. The AcSB proposes scoping multiple element arrangements into the **accounting policy choice** that it proposes exploring to address [Issue 5a](#) above. That is, the Board is considering if multiple element arrangements that meet certain criteria, including having a total duration below a certain threshold, should qualify to apply the completed contract method to the whole contract. In developing this proposal, the Board would seek feedback from interested and affected parties on the qualifying criteria so that entities continue to apply the revenue recognition criteria to the separately identifiable components if it results in more useful information.

**Question 5.1 – Multiple element arrangements**

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with accounting for multiple element arrangements?
- (b) Do you have any comments on the AcSB's proposal to explore an accounting policy choice that would expand the applicability of the completed contract method to multiple element arrangements meeting certain criteria?
  - (i) If you disagree with this proposal, what solution(s) would you recommend, and why?
  - (ii) If you agree with the AcSB's proposal, what criteria do you think multiple element arrangements should meet to qualify for the completed contract method?

**Question 5.2 – Other issues with revenue**

Are there any other financial reporting issues in [Section 3400](#) that you think the AcSB should address as part of this project? If so, please describe the issue, explain why it is within the project's scope and suggest how you think the Board could address the issue.

**EMPLOYEE FUTURE BENEFITS, Section 3462****[Issue 6a](#) – Accounting for individual pension plans as defined benefit plans*****The standard's requirements***

68. Entities must classify benefit plans as either defined benefit or defined contribution plans based on the economic substance of the plan, which is established by its terms and conditions. A benefit plan meets the definition of a defined benefit plan when an enterprise is at risk with respect to the amount of the benefit that each employee will receive and with respect to the investment returns on any assets set aside to pay for the cost of the benefits. The Board has heard that in practice most individual pension plans meet the definition of a defined benefit plan.
69. For defined benefit plans, entities must recognize the defined benefit liability or asset at the end of the reporting period, and the costs of the plan for the period. Entities must use an actuarial valuation for accounting purposes to measure the defined benefit obligation (paragraphs 3462.009, 3462.023 and 3462.029).<sup>4</sup>

<sup>4</sup> Entities are also permitted to use an actuarial valuation prepared for funding purposes, provided the valuation meets certain criteria.

### ***Issue description and analysis***

70. The AcSB heard that the accounting for individual pension plans can be costly to apply because of the cost to obtain the necessary actuarial valuation. However, when an entity obtains the necessary actuarial valuation, the Board heard that the accounting for individual pension plans is relatively simple since all the necessary information is normally provided in the actuarial report.
71. The AcSB heard that users rarely inquire about an entity's individual pension plans as they are normally immaterial to the entity overall. The Board also heard that it is common for entities to accept audit qualifications relating to their accounting for individual pension plans rather than incurring the cost of obtaining the necessary actuarial valuation. Preliminary feedback suggests that users do not typically raise concerns with these audit qualifications. Therefore, the Board thinks in some cases the complexity of accounting for individual pension plans is unwarranted.
72. The AcSB heard that, while individual pension plans used to be a common method for business owners to save for retirement, they have become increasingly rare in practice. Therefore, the AcSB thinks this issue is not pervasive, and therefore **outside the project's scope**. The Board proposes taking no further action.

### **Question 6 – Accounting for individual pension plans**

- (a) Do you have any comments on the AcSB's analysis of feedback on accounting for individual pension plans?
- (b) In your experience, are individual pension plans pervasive among private enterprises applying ASPE?
- (c) Do you have any comments on the AcSB's proposal to take no further action because this issue is outside the project's scope? If you disagree with this proposal, what solution(s) would you recommend, and why?

## **Issue 6b – Preparing the disclosure requirements for defined benefit plans**

### ***The standard's requirements***

73. Entities are required to provide detailed disclosures about defined benefit plans. The standard lists the required disclosures (paragraph 3462.115).

### ***Issue description and analysis***

74. The AcSB heard that it can be challenging to prepare the required disclosures for defined benefit plans. However, the Board also heard that the actuarial reports, which are required to recognize and measure plan assets/liabilities, normally provide all the information needed to prepare the disclosure, making them simple to prepare once entities obtain the report.
75. The AcSB heard that defined benefit plans are uncommon among private entities; however, they are still common among universities applying [Part III](#) of the Handbook – Accounting Standards for Not-for-Profit Organizations (NFPOs). [Section 3462](#) in Part II of the Handbook is applicable to entities applying Part III. Therefore, the Board thinks this issue is pervasive.
76. The AcSB heard that overall, the disclosure requirements for defined benefit plans result in useful information for financial statement users. They demonstrate whether the plan is adequately funded and allow a user to assess the risk of future funding shortfalls. Therefore, the Board thinks the benefits from providing these disclosures exceed the cost of preparing them.

77. The AcSB thinks this issue is **outside the project's scope** because the complexity of these requirements is warranted to provide useful information to users. Therefore, the Board proposes taking no further action.

### Question 6.1 – Disclosure requirements for defined benefit plans

- (a) Do you have any comments on the AcSB's analysis of feedback on the cost to meet the disclosure requirements for defined benefit plans?
- (b) Do you have any comments on the AcSB's proposal to take no further action because this issue is outside the project's scope? If you disagree with this proposal, what solution(s) would you recommend, and why?

## **Issue 6c – Accounting for termination benefits**

### ***The standard's requirements***

78. Entities that are contractually required to provide termination benefits to employees must recognize a liability and an expense when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated (paragraph 3462.103).

### ***Issue description and analysis***

79. The AcSB heard that many entities are unfamiliar with the requirement to accrue termination benefits, which often results in entities understating their liabilities on the balance sheet. The Board heard that some NFPOs include significant termination benefits in certain employment contracts (e.g., executive directors). Additionally, some startup companies also include significant termination benefits in employees' contracts to help them manage cash flows in their early stages. Therefore, the Board thinks this issue is pervasive.
80. The AcSB thinks the requirement to accrue termination benefits should remain unchanged as it thinks presenting the amount of any termination benefit as a liability on the balance sheet provides useful information to users about an entity's future funding needs.

### ***Proposed solution***

81. The AcSB proposes making **no changes** to this requirement as the Board thinks it is necessary to provide useful information to users about an entity's future funding needs.
82. Instead, the AcSB proposes **reviewing the drafting** of the requirements for termination benefits for readability and understandability. The Board also proposes **developing guidance** on the requirement to accrue termination benefits to encourage application of the requirement when relevant.

**Question 6.2 – Accounting for termination benefits**

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with the accounting for termination benefits?
- (b) Do you have any comments on the AcSB's proposal to review the drafting of the guidance on accounting for termination benefits?
  - (i) If you disagree with this proposal, what solution(s) would you recommend, and why?
  - (ii) If you agree with the AcSB's proposal, how do you think the Board could improve the drafting of the requirement to encourage application when relevant?
- (c) Do you have any comments on the AcSB's additional proposal to develop guidance to assist with the application of this requirement?
  - (i) If you disagree with this additional proposal, what solution(s) would you recommend, and why?
  - (ii) If you agree with the AcSB's proposal, where do you think the additional guidance should be included – as an illustrative example that accompanies the standard, or as an external resource outside the Handbook? Please explain your preference, including how your suggested approach would best support consistent application.
- (d) Do you think the AcSB should implement both proposals or only one? If you think the AcSB should only implement one proposal, which one do you think would more effectively address the feedback received, and why?

**Question 6.3 – Other issues with employee future benefits**

Are there any other financial reporting issues in [Section 3462](#) that you think the AcSB should address as part of this project? If so, please describe the issue, explain why it is within the project's scope and suggest how you think the Board could address the issue.

**INCOME TAXES, Section 3465****Issue 7a – Preparing the disclosure requirements when applying the taxes payable method*****The standard's requirements***

83. When an entity applies the taxes payable method, it must disclose a reconciliation of the income tax rate or expense related to income or loss for the period before discontinued operations to the statutory income tax rate or the dollar amount that would result from its application, including the nature and amount of each significant reconciling item (paragraph 3465.88).

***Issue description and analysis***

84. The AcSB heard mixed views on whether this disclosure is challenging to prepare. Some feedback noted that it can be challenging to prepare for entities operating in multiple jurisdictions, with complex transactions and/or with profits in some jurisdictions and losses in others. Those who find this disclosure challenging to prepare noted that additional guidance illustrating the required level of detail would help to promote consistent application of the requirement. They think the illustrative example accompanying the standard (i.e., Illustrative Example 4) is insufficient.

85. Some feedback noted that this disclosure is normally not overly challenging to prepare in most cases because the information required can often be pulled directly from required tax forms (i.e., Schedule 1). The Board also heard that, although establishing a process to prepare this disclosure can be challenging in some situations, once the process is in place, preparing the disclosure in subsequent years is relatively simple.
86. The AcSB heard that this disclosure often provides useful information to entities and their users about an entity's future income tax obligations and the differences between accounting and tax income.

### ***Proposed solution***

87. The Board proposes **developing additional guidance** to illustrate the required level of detail in this reconciliation as preliminary feedback suggests that current resources are insufficient, resulting in application challenges for some entities.

### **Question 7 – Disclosure requirements under the taxes payable method**

- (a) Do you have any comments on the AcSB's analysis of feedback on the cost to meet the disclosure requirements under the taxes payable method?
- (b) Do you have any comments on the AcSB's proposal to develop additional guidance to assist with the application of this requirement?
  - (i) If you disagree with this proposal, what solution(s) would you recommend, and why?
  - (ii) If you agree with the AcSB's proposal, where do you think the additional guidance should be included – as an additional illustrative example that accompanies the standard, or as an external resource outside the Handbook? Please explain your preference, including how your suggested approach would best support consistent application.

## **Issue 7b – Applying the future income taxes method**

### ***The standard's requirements***

88. Entities can choose to account for income taxes using either the taxes payable method or the future income taxes method. Under the future income taxes method, entities must recognize a future income tax liability whenever recovery or settlement of the carrying amount of an asset or liability would result in future income tax outflows. Similarly, entities must recognize a future income tax asset whenever recovery or settlement of the carrying amount of an asset or liability would generate future income tax reductions (paragraphs 3465.03 and 3465.10).

### ***Issue description and analysis***

89. The AcSB heard that the future income taxes method can be challenging to apply. Although the Board acknowledges these challenges, it also noted that entities have the option to apply the simpler taxes payable method. The Board heard that some large private entities choose to apply the future income taxes method so that their financial statements are more comparable to public companies, who must apply the future income taxes method. Subsidiaries of public companies also often apply this method to reduce consolidation adjustments.
90. The AcSB thinks this issue is **outside the project's scope** because entities have the option to reduce complexity by applying the taxes payable method. Therefore, the AcSB proposes taking no further action.

**Question 7.1 – Applying the future income taxes method**

- (a) Do you have any comments on the AcSB's analysis of feedback on applying the future income taxes method?
- (b) Do you have any comments on the AcSB's proposal to take no further action because this issue is outside the project's scope? If you disagree with this proposal, what solution(s) would you recommend, and why?

**Issue 7c – Accounting for uncertain tax treatments*****The standard's requirements***

- 91. An uncertain tax treatment is a tax treatment used, or planned to be used, in a corporation's income tax filings when the entity is uncertain whether the tax treatment will be accepted as being in accordance with tax law. ASPE currently has no guidance on the accounting and disclosure requirements for uncertain tax treatments.

***Issue description and analysis***

- 92. The AcSB heard that the lack of guidance on the reporting of uncertain tax treatments is leading to diversity in practice.
- 93. In accordance with GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph 1100.04, when the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by an entity, the entity needs to adopt accounting policies and disclosures that are developed through the exercise of professional judgment and the application of concepts described in FINANCIAL STATEMENT CONCEPTS, [Section 1000](#). To comply with this requirement, the AcSB heard that in some cases entities are referring to other frameworks, such as IFRS Accounting Standards, to develop an accounting policy. This process is inherently more challenging than referring to existing guidance in ASPE.
- 94. Since ASPE has no guidance on the accounting and disclosure of uncertain tax treatments, entities must apply judgment to adopt an accounting policy. In accordance with the project scoping framework, this issue is **outside the project's scope**. However, the Board will continue to monitor this issue and will consider addressing it as part of a separate standard-setting project. The Board will determine the priority level of this project when setting its overall future project priorities and workplan.

**Question 7.2 – Uncertain tax treatments**

- (a) Do you have any comments on the AcSB's analysis of feedback on the accounting and disclosure of uncertain tax treatments?
- (b) Do you have any comments on the AcSB's proposal to continue to monitor this issue and consider addressing it as part of a separate standard-setting project? If you disagree with this proposal, what solution(s) would you recommend, and why?

**Question 7.3 – Other issues with income taxes**

Are there any other financial reporting issues in [Section 3465](#) that you think the AcSB should address as part of this project? If so, please describe the issue, explain why it is within the project's scope and suggest how you think the Board could address the issue.

## DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475

### **Issue 8a – Accounting for the disposal of long-lived assets**

#### ***The standard's requirements***

95. A long-lived asset that will be sold should be classified as held for sale on the balance sheet provided certain criteria are met. A long-lived asset classified as held for sale should be measured at the lower of its carrying amount and fair value less costs to sell. It should not be amortized while it is classified as held for sale (paragraphs 3475.08 and 3400.13).

#### ***Issue description and analysis***

96. Through its outreach, the AcSB heard that private entities rarely apply the requirements for the disposal of long-lived assets when they are not also recognizing a discontinued operation, even though they are distinct concepts. As a result, some entities are not applying the requirements for the disposal of long-lived assets when they meet all the held-for-sale criteria. In these cases, entities might defer recognizing a loss for any decrease in the value of the asset until it is ultimately disposed of, rather than recognizing the loss once all the held-for-sale criteria are met.
97. An entity's failure to reclassify such assets as held for sale and recognize any losses upfront might result in users missing key information in their analysis of the entity. This issue is pervasive, as the disposal of long-lived assets is common among private entities. The AcSB heard that some entities might view the disposal of long-lived assets and the classification of discontinued operations as the same assessment because they are part of the same standard rather than separate standards. Therefore, the Board thinks this issue arises due to the way the standard is drafted. This issue is within the scope of this project because complexity is unwarranted when it arises from requirements that are difficult to understand, as this does not contribute to providing useful information to financial statement users.

#### ***Proposed solution***

98. The AcSB proposes **reviewing the drafting** of the requirements for the disposal of long-lived assets and exploring separating them into their own standard for greater clarity.

#### **Question 8 – Disposal of long-lived assets**

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with accounting for the disposal of long-lived assets?
- (b) Do you have any comments on the AcSB's proposal to review the drafting of the requirements for the disposal of long-lived assets and to explore separating them into their own standard for greater clarity? If you disagree with this proposal, what solution(s) would you recommend, and why?

## **Issue 8b – Applying the requirements for discontinued operations**

### ***The standard's requirements***

99. A discontinued operation is a component of an enterprise that either has been disposed of (by sale, abandonment or spin-off) or is classified as held for sale. To be classified as a discontinued operation, a component also needs to meet one of three additional criteria listed in the standard. A component of an enterprise comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the enterprise.
100. Entities should report the results of discontinued operations as a separate element of income for both current and prior periods (paragraphs 3475.03(e) and 3475.30).

### ***Issue description and analysis***

101. The AcSB heard that some private entities find it challenging to apply the requirements for discontinued operations as it can be difficult to separately track their revenue and expenses due to a lack of segmented financial records. As a result, most operations at private entities rarely meet the criteria to be classified as discontinued operations as their operations and cash flows cannot be clearly distinguished, operationally and for financial reporting purposes, from the rest of the enterprise. The Board also heard that while the requirements for presenting income and expenses from discontinued operations are clear, balance sheet presentation requirements are not well understood.
102. Although the AcSB acknowledges that these requirements can be challenging to apply, the Board thinks this issue is **outside the project's scope**. Discontinued operations are uncommon in practice, and therefore this issue is not pervasive. The Board proposes taking no further action.

### **Question 8.1 – Discontinued operations**

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges entities face when accounting for discontinued operations?
- (b) Do you have any comments on the AcSB's proposal to take no further action because this issue is outside the project's scope? If you disagree with this proposal, what solution(s) would you recommend, and why?

### **Question 8.2 – Other issues with disposal of long-lived assets and discontinued operations**

Are there any other financial reporting issues in Section 3475 that you think the AcSB should address as part of this project? If so, please describe the issue, explain why it is within the project's scope and suggest how you think the Board could address the issue.

## FINANCIAL INSTRUMENTS, Section 3856

### **Issue 9a – Measuring the fair value of loans with non-market interest rates**

#### ***The standard's requirements***

103. Entities are required to initially measure financial liabilities assumed in an arm's length transaction at their fair value. For financial liabilities that will not be subsequently measured at fair value, financing fees and directly attributable transaction costs are deducted from their fair value upon initial measurement. The fair value of a financial liability with a non-market interest rate is not equal to the cash consideration. Its fair value can be estimated as the present value of all future cash payments discounted using the prevailing market interest rate for a similar loan (paragraphs 3856.07 and 3856.A8).

#### ***Issue description and analysis***

104. The AcSB heard that measuring loans with non-market interest rates at fair value can be challenging for some entities because there is often no observable prevailing market interest rate for similar loans. The Board heard that such loans are common in practice, with examples including some government loans, supplier finance arrangements and loans to finance a business purchase. Loans with below-market interest rates are also common among NFPOs, as some donors provide contributions of such loans. Therefore, this issue is pervasive among private enterprises and NFPOs.
105. Users have indicated that measuring these types of loans at fair value often does not provide useful information, as they are primarily interested in understanding the cash flows associated with the loan and their terms and conditions. Sometimes, the lender is the primary user of the financial statements and would, therefore, be aware of the amount owing, the interest rate and the loan's terms and conditions. Consequently, depending on a user's familiarity with the standard's measurement requirements, they might question why the loan's carrying value on the balance sheet differs from the amount owing. Therefore, the Board thinks the benefits of applying this requirement often do not exceed the cost of doing so.

#### ***Proposed solution***

106. The AcSB proposes exploring an **accounting policy choice** that would allow entities to measure financial liabilities with non-market interest rates at face value (i.e., the present value of future cash flows, discounted using the contractual interest rate), rather than at fair value. This accounting policy choice would be paired with robust disclosure about the terms and conditions of interest-free and low-interest loans.

### Question 9 – Measuring interest-free and low-interest loans in arm's length transactions at fair value

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with measuring interest-free and low-interest loans in arm's length transactions at fair value?
- (b) Do you have any comments on the AcSB's proposal to explore an accounting policy choice that would allow entities to measure financial liabilities with non-market interest rates at face value (i.e., the present value of future cash flows, discounted using the contractual interest rate), rather than at fair value?
  - (i) If you disagree with this proposal, what solution(s) would you recommend, and why?
  - (ii) If you agree with the AcSB's proposal, do you think this accounting policy choice should be available to all entities, or should there be qualifying criteria to ensure users' information needs are met? If you think there should be restrictions on this accounting policy choice, what should they be, and why?

### **Issue 9b – Determining the fair value of derivatives**

#### ***The standard's requirements***

107. Entities are required to measure all financial instruments acquired or assumed in arm's length transactions at their fair value, including derivatives. Entities are required to subsequently measure derivatives (other than those designated as hedges and those that must be settled by equity instruments of another enterprise whose fair value cannot be readily determined) at fair value without any adjustment for transactions costs it may incur on sale or disposal. [Section 3856](#) provides application guidance on how to obtain the fair value for various derivatives, and notes that a quote from a derivatives dealer may be used as a proxy for the fair value of a derivative (paragraphs 3856.07, 3856.12(b) and 3856.A10).

#### ***Issue description and analysis***

108. Derivatives are complex financial instruments, and therefore it is challenging for entities to determine their fair value when a quoted market price from a derivatives dealer is not available. However, the AcSB heard that, in practice, dealers typically provide quotes to entities for most common derivative contracts, making their accounting relatively straightforward. The Board heard that it is uncommon for private entities to enter into derivative contracts without a dealer-provided quote. Therefore, the Board thinks this issue is not pervasive.
109. The AcSB also thinks the complexity involved in determining the fair value of derivatives when a quote is not provided by the derivatives dealer is warranted due to the complex nature of these financial instruments. Any simplified accounting policy might fail to accurately represent an entity's assets or liabilities, potentially omitting key information for users.
110. The AcSB thinks this issue is **outside the project's scope**. It is uncommon for private entities to enter into derivative contracts without a dealer-provided quote. When an entity enters this type of arrangement, the complexity in determining the fair value of the derivative is warranted to provide useful information to financial statement users. Therefore, the Board proposes taking no further action.

**Question 9.1 – Determining the fair value of derivatives**

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with determining the fair value of derivatives?
- (b) Do you have any comments on the AcSB's proposal to take no further action because this issue is outside the project's scope? If you disagree with this proposal, what solution(s) would you recommend, and why?

**Issue 9c – Application guidance on liabilities and equity classification*****The standard's requirements***

111. An entity that issues a financial instrument in an arm's length transaction must classify it as a liability or as equity in accordance with the substance of the arrangement and the definitions of a financial liability and an equity instrument, applying the application guidance in the standard (paragraphs 3856.A22-.A29).

***Issue description and analysis***

112. The AcSB heard that some entities find the application guidance on liabilities and equity classification challenging to understand due to the way it is drafted. This is leading to diversity in the accounting for some similar financial instruments. While some judgment is often required to classify a financial instrument as a liability or as equity, the Board expects entities to reach consistent conclusions for common financial instruments. That is, there is no intentional diversity in this requirement. The diversity in practice for this requirement falls within the scope of this project as it indicates that the standard's requirements might be challenging to understand or apply.
113. The AcSB thinks this complexity is unwarranted as requirements that are complicated to understand due to the way they are drafted do not contribute to providing useful information to financial statement users.

***Proposed solution***

114. The AcSB proposes **reviewing the drafting** of the application guidance related to classification of financial instruments as liabilities or equity for readability and understandability.

**Question 9.2 – Liabilities and equity classification**

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with applying the application guidance in the standard on liabilities and equity classification?
- (b) Do you have any comments on the AcSB's proposal to review the drafting of the guidance related to classification of financial instruments as liabilities or equity?
  - (i) If you disagree with this proposal, what solution(s) would you recommend, and why?
  - (ii) If you agree with the AcSB's proposal, what aspects of the classification requirements do you find challenging to understand, and how do you think they could be improved through redrafting?

## **Issue 9d – Assessing whether an arrangement meets the criteria to qualify for hedge accounting**

### ***The standard's requirements***

115. Entities have the option to apply hedge accounting when certain conditions are satisfied. The standard lists the types of hedging relationships that entities may designate, provided those conditions are satisfied (paragraphs 3856.30-.32).

### ***Issue description and analysis***

116. The AcSB heard that it can be challenging for some entities to assess and document whether an arrangement meets the criteria to qualify for hedge accounting.
117. Preliminary feedback suggests that most private enterprises do not enter the types of arrangements that might qualify for hedge accounting as their businesses are relatively simple and do not warrant entering such arrangements. Therefore, even though it can be challenging to assess whether an arrangement meets the criteria to qualify for hedge accounting, this issue does not meet the pervasiveness threshold to be addressed through this project. Additionally, since hedge accounting is optional, entities that find it challenging to apply can choose not to apply it.
118. The AcSB thinks this issue is **outside the project's scope** because it is not pervasive and because hedge accounting is optional. The Board proposes taking no further action.

### **Question 9.3 – Hedge accounting**

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with assessing and documenting whether an arrangement meets the criteria in the standard to qualify for hedge accounting?
- (b) Do you have any comments on the AcSB's proposal to take no further action because this issue is outside the project's scope? If you disagree with this proposal, what solution(s) would you recommend, and why?

## **Issue 9e – Disclosure of financial risks**

### ***The standard's requirements***

119. For each significant risk arising from financial instruments, entities must disclose their exposure to the risk, how it arose and any changes in exposure from the previous period. They also must provide information to help users understand the nature and extent of these risks at the end of the reporting period and disclose if there are any concentrations of risk.
120. An entity's disclosures pertaining to its financial instruments should provide relevant and enterprise-specific information that enables its financial statement users to evaluate the significance of financial instruments to its financial position and performance. The application guidance in the standard lists the following financial risks that an entity might need to disclose to meet the disclosure requirements:
- credit risk;
  - currency risk;
  - interest rate risk;
  - liquidity risk;

- market risk; and
- other price risk (paragraphs 3856.37, 3856.53-.54 and 3856.A66-.A67).

### ***Issue description and analysis***

121. The AcSB received feedback that the disclosure of financial risks is often boilerplate (i.e., not entity-specific), which may reduce its usefulness to financial statement users. Financial statement preparers have indicated that they often use boilerplate disclosures to ensure all significant risks are included and none are omitted, thereby ensuring the disclosure is complete. Additional disclosures are added when there are more significant risks. Considering this feedback, the Board thinks that the overall benefits of the current requirements exceed the costs. The Board also thinks that new guidance, such as illustrative examples, might further contribute to boilerplate disclosures as entities might use them as a template rather than as guidance to tailor to their specific facts and circumstances.
122. The AcSB thinks this issue is **outside the project's scope** because the standard's requirements effectively guide entities in providing complete disclosures of their financial risks (i.e., they are not challenging or costly to apply). The Board proposes taking no further action.

#### **Question 9.4 – Disclosure of financial risks**

- Do you have any comments on the AcSB's analysis of feedback on challenges entities face when preparing the disclosure of financial risks?
- Do you have any comments on the AcSB's proposal to take no further action because this issue is outside the project's scope? If you disagree with this proposal, what solution(s) would you recommend, and why?

#### **Question 9.5 – Other issues with financial instruments**

Are there any other financial reporting issues in Section 3856 that you think the AcSB should address as part of this project? If so, please describe the issue, explain why it is within the project's scope and suggest how you think the Board could address the issue.

## **STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870**

### **Issue 10 – Measuring employee stock options and other equity instruments in stock-based compensation plans**

#### ***The standard's requirements***

123. Entities are required to measure equity instruments issued to employees and the cost of the services received based on the fair value of the equity instruments (paragraph 3870.24).

### ***Issue description and analysis***

124. The AcSB heard that it is often challenging to determine the fair value of employee stock options as some of the inputs to the valuation model are challenging to determine. For example, the spot price and volatility of the instrument might be challenging to estimate for private entities that have not raised capital recently.

125. Overall, the AcSB heard mixed views on the usefulness of this information for financial statement users. Due to the high degree of estimation uncertainty surrounding the measurement of employee stock options, some questioned whether this information is useful. They suggested that the Board explore an option to not recognize these instruments, while retaining current disclosure requirements. They cited owner-managed entities and entities with all outstanding shares closely held as examples of when such an option might be warranted. However, overall, the Board thinks that establishing appropriate, consistently applicable criteria would be challenging.
126. Some provided feedback that entities should continue to be required to recognize compensation expenses related to stock-based compensation arrangements to fully reflect the employee costs. Some employees receiving stock-based compensation would require alternative compensation (e.g., cash or other benefits) if they did not receive stock-based compensation. Additionally, some stock-based compensation plans might ultimately result in cash payments by the entity to an employee. Therefore, the measurement requirements for stock-based compensation often provide relevant information to users, even if it is challenging for entities to estimate the amount.
127. The AcSB thinks this issue is **outside the project's scope** because the complexity of these requirements is warranted to provide useful information to users. Therefore, the Board proposes taking no further action.

### Question 10 – Measuring employee stock options and other equity instruments in stock-based compensation plans

- (a) Do you have any comments on the AcSB's analysis of feedback on challenges with measuring employee stock options and other equity instruments in stock-based compensation plans?
- (b) Do you have any comments on the AcSB's proposal to take no further action because this issue is outside the project's scope? If you disagree with this proposal, what solution(s) would you recommend, and why?

### Question 10.1 – Other issues with stock-based compensation and other stock-based payments

Are there any other financial reporting issues in [Section 3870](#) that you think the AcSB should address as part of this project? If so, please describe the issue, explain why it is within the project's scope and suggest how you think the Board could address the issue.

### Question 11 – Other significant ASPE application issues

Are there any financial reporting issues in the [standards with no significant application issues raised](#) that you think the AcSB should address as part of this project? If so, please describe each issue, explain why it is within the project's scope and suggest how you think the Board could address the issue.

## Prioritization of potential projects and capacity

128. Standard setting is a time-intensive process because the AcSB adheres to a rigorous set of procedures to develop and adopt standards, outlined in its [Due Process Manual](#). The time required to complete a standard-setting project is influenced by the complexity of the issue being addressed and the extent of research, consultation and deliberation required, among other factors. The Board

generally consults widely with interested and affected parties because consultation is a critical step in developing high-quality standards.

129. As part of its [due process](#), the AcSB evaluates potential future projects and prioritizes them. In doing so, it considers various factors, such as its own capacity and that of interested and affected parties. The Board also considers how widespread the issue is, the urgency of enhancing financial reporting in the affected area, the alignment of the proposed solution to established financial statement concepts and whether practical, timely solutions can be implemented.
130. The list of potential ASPE issues to be addressed, as outlined in this Consultation Paper, is not comprehensive and should not be viewed as the AcSB's draft work plan for [Part II](#) of the Handbook in the coming years. The Board will assign a priority level to each of the financial reporting issues identified during its Detailed Review of ASPE and will consider this assessment when setting its work plans in the coming years.

### **Question 12 – Prioritizing financial reporting topics within the scope of the Detailed Review of ASPE**

Considering how the AcSB prioritizes its projects, please indicate which financial reporting issues you think the Board should assign the highest priority (e.g., list your top three to five issues). Please explain your reasoning.

### **Next steps**

131. The AcSB plans to begin deliberating feedback on this Consultation Paper in the first quarter of 2026. Based on its deliberations, the Board will decide on next steps for each issue identified. As discussed above, the Board will consider whether certain issues or solutions can be bundled with others and addressed collectively as a single project, or whether some issues warrant separate, distinct projects.

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