AcSB
Accounting
Standards Board

Exposure Draft

Proposed Accounting Standards for Private Enterprises

Amendments to Section 3856, *Financial Instruments* – Derecognition of Financial Liabilities

November 2026

This Exposure Draft closes for comments on January 22, 2027.

The Accounting Standards Board (AcSB) welcomes feedback from any interested party on any or all questions posed in this Exposure Draft. You can provide feedback to the AcSB on the proposals in a variety of ways:

- Connect directly with the Board by attending a discussion session on this Exposure Draft. Session dates and registration information will be posted to the Derecognition of Financial Liabilities 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 shortly after this Exposure Draft 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 found in the Exposure Draft.
- If you identify a potential issue in this Exposure Draft's 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 to.

HIGHLIGHTS

The AcSB proposes, subject to comments received following exposure, to amend FINANCIAL INSTRUMENTS, Section 3856 in Part II of the CPA Canada Handbook – Accounting Standards for Private Enterprises. The proposed narrow-scope amendments include the proposal to introduce an accounting policy choice associated with the derecognition of financial liabilities. The amendments will apply to private enterprises applying the standards in Part II of the Handbook and to not-for-profit organizations applying the standards in Part III of the CPA Canada Handbook – Accounting for Not-for-Profit Organizations, as relevant.

Background

In May 2024, the International Accounting Standards Board (IASB) issued amendments to IFRS® Accounting Standards (IFRS). The IFRS amendments clarify that, except for certain electronic payment transfers for which relief was granted, financial liabilities paid in cash are extinguished upon settlement – the date on which payment is completed – and the creditor has control of the cash received. The IASB explained its reasoning for not extending the exception to other payment methods in paragraph BC3.55 of IFRS 9 *Financial Instruments – Basis for Conclusions*, noting, "For other payment methods, such as cheques, completion of the payment remains subject to settlement risk that is more than insignificant until the cash is delivered (that is, transferred from the payer's account)."

In September 2024, the AcSB discussed a concern that some private enterprises may refer to the amended IFRS guidance when applying requirements in Section 3856 related to the extinguishment of financial liabilities. This concern arises because the wording in paragraphs 3856.26 and 3856.A49 is the same as the corresponding wording in IFRS.

The AcSB understands that there may be diversity in practice in terms of the application of these requirements. Some entities applying Accounting Standards for Private Enterprises (ASPE) may derecognize financial liabilities settled through common payment methods, such as cheques and electronic fund transfers, when the payment is initiated or issued, rather than upon settlement. The date used to extinguish financial liabilities paid in cash may have practical implications for Canadian entities. For example, when a trade payable is paid by cheque, applying a settlement-date approach would result in the liability being derecognized only when the cheque is cleared by the counterparty's bank. Until that time, the trade payable would continue to be recognized, and the entity would not report the cheque as outstanding at the balance sheet date.

In its September 2024 Decision Summary, the AcSB noted there had been no changes to ASPE and, accordingly, it did not expect changes in how these transactions are accounted for in Canada by entities applying Section 3856. The Board directed staff to further discuss concerns related to the derecognition of financial liabilities in ASPE with its advisory committees.

The AcSB considered input from its Medium and Small Practitioners Advisory Committee, its Private Enterprise Advisory Committee and its Not-for-Profit Advisory Committee, at its November 2024 meeting. The Board asked staff to assess the issue using the criteria in its Guidance Framework to determine whether additional clarification was necessary given the wording is the same in IFRS as in ASPE. Following this assessment, staff recommended that the Board proceed with standard setting. At its March 2025 meeting, the Board agreed with staff's recommendation.

At its March 2026 meeting, the AcSB decided to address this issue through a narrow-scope amendment project. Accordingly, the Board proposes to issue a narrow-scope amendment to Section 3856.

Main features of the Exposure Draft

The proposals in this Exposure Draft introduce an accounting policy choice associated with the derecognition of financial liabilities when liabilities are paid in cash.

Timing of adoption and transitional provisions

The AcSB expects to issue the final amendments in the fourth quarter of 2027. The proposals would apply retrospectively for annual periods beginning on or after January 1, 2029, with earlier application permitted.

Consequential amendments

As required, consequential amendments will be made to other standards in Part II of the Handbook.

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of the comments received. Part of the deliberation process includes consulting with the Board's advisory Committees. The Committees assist the Board in maintaining and improving ASPE. The Board will also consult with other interested and affected parties through targeted outreach activities.

The AcSB will provide updates about its deliberations in its decision summaries and on the project page. Once deliberations and the due process procedures for finalizing the amendments are complete, the Board plans to issue the amendments in the fourth quarter of 2027, provided no significant changes to the proposals are required.[1]

Comments requested

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

1. The AcSB proposes an accounting policy choice in paragraph 3856.A49A to allow an enterprise to derecognize a financial liability either on the payment issuance date or on the settlement date. Do you agree with the proposal in paragraph 3856.A49A? If not, why not and what alternatives should the Board consider?

2. The AcSB proposes that the accounting policy choice in paragraph 3856.A49A be applied consistently to all transactions for which financial liabilities are settled with cash. Do you agree with this proposal? If not, why not?

3. The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2029, with earlier application permitted. The Board also proposes that the amendments be applied retrospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(d).

    a. Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2029, with earlier application permitted? If not, why not?

    b. Do you agree that the proposed amendments should be applied retrospectively, as defined in paragraph 1506.05(d)? If not, why not?

The deadline for submitting your comment letter to the AcSB is January 22, 2027. Comment on this document by uploading your response letter via this online form.

[1] Refer to "Due Process Specifically Related to Domestic Standards" in the AcSB Standard-setting Due Process Manual.

PROPOSALS

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

FINANCIAL INSTRUMENTS, Section 3856

DERECOGNITION

…

Financial liabilities

.26 *An enterprise shall remove a financial liability (or a part of a financial liability) from its balance sheet when it is extinguished (i.e., when the obligation is discharged or cancelled, or expires).* (Paragraphs 3856.A49-.A61 provide related application guidance.)

…

APPENDIX A

APPLICATION SUPPLEMENT

This Appendix is an integral part of this Section.

…

DERECOGNITION OF FINANCIAL LIABILITIES

A49 A financial liability (or part of it) is extinguished when the debtor:

(a) discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods, or services; or

(b) is legally released from primary responsibility for the liability (or part of it), either by process of law or by the creditor. (When the debtor has given a guarantee, this condition may still be met.)

A transfer of debt instruments between debt holders does not result in a modification of the terms of the original debt instrument or an exchange of debt instruments between the debtor and the debt holders.

A49A When financial liabilities (or part of a financial liability) are settled through a cash payment, an enterprise may determine that the liability (or part of it) is extinguished either on the payment issuance date or on the settlement date. This accounting policy choice shall be applied consistently to all transactions in which financial liabilities are settled through cash payments.

…

EFFECTIVE DATE AND TRANSITION

…

.74 New paragraph 3856.A49A, issued in [November 2027], apply to annual financial statements relating to fiscal years beginning on or after January 1, 2029. An enterprise applies these amendments retrospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(d). Earlier application is permitted.

BASIS FOR CONCLUSIONS

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Introduction

1. This document summarizes considerations that were deemed significant by the Accounting Standards Board (AcSB) in reaching its conclusions to develop narrow-scope proposals to amend FINANCIAL INSTRUMENTS, Section 3856, in Part II of the CPA Canada Handbook – Accounting Standards for Private Enterprises. This document sets out the reasons the Board undertook to develop the proposals, the process of research and deliberation, the key decisions made and the principal reasons for adopting the positions taken and rejecting others.

2. In developing these proposals, the AcSB sought the advice of its Private Enterprise Advisory Committee, its Medium and Small Practitioners Advisory Committee and its Not-for-Profit Advisory Committee. The Private Enterprise Advisory Committee and the Not-for-Profit Advisory Committee include financial statement users, auditors and preparers with a range of backgrounds and experience from across Canada. Members include representatives from organizations of differing sizes and in a variety of industries. The Medium and Small Practitioners Advisory Committee includes auditors and practitioners from smaller firms across Canada.

Background

3. In May 2024, the International Accounting Standards Board (IASB) issued amendments to IFRS® Accounting Standards (IFRS). The IFRS amendments clarify that, except for certain electronic payment transfers for which relief was granted, financial liabilities paid in cash are extinguished upon settlement — the date on which payment is completed — and the creditor has control of the cash received. The IASB explained its reasoning for not extending the exception to other payment methods in paragraph BC3.55 of IFRS 9 *Financial Instruments – Basis for Conclusions*, noting,

"For other payment methods, such as cheques, completion of the payment remains subject to settlement risk that is more than insignificant until the cash is delivered (that is, transferred from the payer's account)."

4. In September 2024, the AcSB discussed a concern that some private enterprises may refer to the amended IFRS guidance when applying requirements in Section 3856 related to the extinguishment of financial liabilities. This concern arises because the wording in paragraphs 3856.26 and 3856.A49 is the same as the corresponding wording in IFRS.

5. The AcSB understands that there may be diversity in practice in terms of the application of these requirements. Some entities applying Accounting Standards for Private Enterprises (ASPE) may derecognize financial liabilities settled through common payment methods, such as cheques and electronic fund transfers, when the payment is initiated or issued, rather than upon settlement. The date used to extinguish financial liabilities paid in cash may have practical implications for Canadian entities. For example, when a trade payable is paid by cheque, applying a settlement-date approach would result in the liability being derecognized only when the cheque is cleared by the counterparty's bank. Until that time, the trade payable would continue to be recognized, and the entity would not report the cheque as outstanding at the balance sheet date.

6. In its September 2024 Decision Summary, the AcSB noted there had been no changes to ASPE and, accordingly, it did not expect changes in how these transactions are accounted for in Canada by entities applying Section 3856. The Board directed staff to further discuss concerns related to the derecognition of financial liabilities in ASPE with its advisory committees.

7. The AcSB considered input from its Medium and Small Practitioners Advisory Committee, its Private Enterprise Advisory Committee and its Not-for-Profit Advisory Committee, at its November 2024 meeting. The Board asked staff to assess the issue using the criteria in its Guidance Framework to determine whether additional clarification was necessary given the wording is the same in IFRS as in ASPE. Following this assessment, staff recommended that the Board proceed with standard setting. At its March 2025 meeting, the Board agreed with staff's recommendation.

8. At its March 2026 meeting, the AcSB decided to address this issue through a narrow-scope amendment project. Accordingly, the Board proposes to issue a narrow-scope amendment to Section 3856.

Applicability to not-for-profit organizations

9. Not-for-profit organizations (NFPOs) apply the standards for private enterprises in Part II of the Handbook to the extent that the Part II standards address topics not addressed in Part III. In finalizing the amendments and in light of the feedback received, the AcSB concluded there were no unique considerations for NFPOs applying these amendments.

Effects analysis

10. The AcSB proposes to amend Section 3856 to permit a policy choice for the derecognition of financial liabilities settled in cash. Under the proposed amendments, an entity may determine the date the liability is extinguished to be either the payment issuance date or the settlement date. The Board does not expect the proposed amendments to result in significant operational impacts because entities may select an accounting policy that is consistent with their current practices. Accordingly, the Board does not expect the amendments to be onerous to apply and expects them to continue to provide useful information to financial statement users.

11. Having considered the effects of the proposals, the AcSB expects that they will result in minimal changes to the financial reporting of private enterprises or NFPOs.

Amendments

12. To address the matters arising from the Guidance Framework assessment, this Exposure Draft proposes a narrow-scope amendment to Section 3856.

13. In addition to the Committee's feedback, the AcSB considered the current requirements for the derecognition of financial liabilities and existing accounting practices.

14. The AcSB decided that standard setting is needed to address specific concerns raised by interested and affected parties.

15. These concerns relate primarily to the timing of derecognition of financial liabilities, such as trade payables. The AcSB aims to support consistent application of the derecognition requirements, address identified concerns and limit the risk of unintended consequences.

Approaches considered

16. When assessing the issue, the AcSB initially considered limiting the scope proposals to specific payment methods, particularly cheque payments. However, while the issue mainly relates to cheque payments, it also affects other common payment methods used in Canada, such as electronic funds transfers (EFTs), automated clearing house (ACH) payments and wire transfers. These payment methods have differing characteristics and processing timelines. As a result, restricting the scope based on payment method could unintentionally exclude other relevant transactions. The Board therefore decided to propose a payment method–agnostic approach. The proposed amendments apply to all transactions for which financial liabilities are settled with cash, including but not limited to, payments made by cheque and EFTs.

17. Given the concerns the AcSB is seeking to address, and the limited scope of the IFRS amendments that prompted this project, the Board thinks the proposals should be focused on the derecognition of financial liabilities settled with cash, including through cheques, EFTs, ACH payments and wire transfers.

18. The AcSB also considered whether to allow the accounting policy choice to be applied either broadly or on a more granular basis, such as a transaction-by-transaction basis. The Board determined that applying the policy choice on an overarching basis would result in more consistent and understandable outcomes regardless of the option selected. In contrast, applying the policy on a transaction-by-transaction basis could result in inconsistency and create opportunities for structuring.

19. The AcSB notes that payment issuance is generally evidenced by the cash outflows from an entity's bank account, including for payments made through EFTs, ACH payments and wire transfers. For payments made by cheque, this is evidenced by the cheque being mailed or otherwise delivered to the counterparty. Payment is not considered to be issued when a cheque has been written but not yet released.

20. Any subsequent changes to the accounting policy choice would be subject to the requirements in ACCOUNTING CHANGES, Section 1506.

Disclosure requirements

21. The AcSB does not propose specific disclosure requirements for these amendments. However, the requirements in DISCLOSURE OF ACCOUNTING POLICIES, Section 1505, would apply to the proposed amendments.

Effective date and transition

22. The AcSB plans to issue the narrow-scope amendments into Part II of the Handbook in the fourth quarter of 2027 if no significant changes are required following feedback on the Exposure Draft.

23. Determining an effective date is an important step in the AcSB's due process. The Board proposes an effective date of January 1, 2029, with earlier application permitted.

24. The AcSB proposes that entities apply these amendments retrospectively.

25. If an entity chooses to change its accounting policy, the AcSB thinks that the information required (e.g., data on outstanding cheques) is generally readily available.

26. Consequently, considering the scope of the proposed amendments, the AcSB thinks a retrospective application approach would not be overly burdensome for entities.

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