AcSB
Accounting Standards Board

Accounting for Common Control Combinations

Responses to Exposure Draft

February 2025

Table of Contents

January 28, 2025

SENT ELECTRONICALLY

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

Re: Exposure Draft, "Accounting for Common Control Combinations"

Dear Ms. Christopoulos,

Thank you for the opportunity to provide input to the Accounting Standards Board ("AcSB") on the above noted document.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as pension plans, credit unions, co-operatives, First Nations, medical and legal professionals, not-for-profit organizations, municipalities and government entities. In addition, our client base includes a sizable contingent of publicly traded companies. We believe that we are well-positioned to provide feedback on this exposure draft ("ED").

We support the AcSB's efforts to provide clarity on accounting for common control combinations. While we have noted a few concerns, we generally agree with the proposed amendments. Explanations related to our concerns are included below.

Question 1: The AcSB proposes options in paragraph 3840.44(b) to allow enterprises to account for the combined enterprise either as a new entity or as a continuation of one of the combining enterprises when carrying values are used to account for a combination under common control and an enterprise chooses to account for the combination prospectively from the transaction date. Do you agree with the proposal in paragraph 3840.44(b)? If not, why not and what alternatives should the Board consider?

We agree with the proposed options. Giving entities the choice on how to present comparative figures, when a transaction is accounted for prospectively, alleviates any potential complexity in having to determine an acquirer.

However, further guidance in a couple of areas may be required to assist practitioners in applying these options in practice.

If accounting for the combination as a new entity under 3840.44(b)(i), it may not be clear, without referring to the Basis for Conclusions, that no results prior to the combination of either the combined entity or comparatives should be presented. Additional explanation that as a new entity, no information prior to the combination, including comparative information, would be reported in the period in which the combination occurs would be helpful.

Further, if accounting for the combination as a continuation of one of the combining enterprises under 3840.44(b)(ii), it may not be clear that the combined enterprise can choose which of the combining enterprises to continue, without referring to the Basis for Conclusions. Without explicitly stating that there is a choice, a reader may infer that there is still a requirement to determine the acquirer.

Question 2: The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2026, with earlier application permitted. The Board also proposes that the amendments be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.

(a) Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2026, with earlier application permitted? If not, why not?

Given the nature of the proposed amendments are to clarify options available to entities, and that the amendments would be applied prospectively to new combinations, we agree that the proposed amendments should apply for annual periods on or after January 1, 2026.

(b) Do you agree that the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied? If not, why not?

We agree that the proposed amendments should be applied prospectively.

We would be pleased to offer our assistance to the AcSB for any future proposed changes to accounting standards and in helping to find solutions which meet the needs of the financial statement users.

Yours truly,

MNP LLP

Maryse Vendette

Maryse Vendette, CPA, Auditor
Partner, Assurance Professional Standards, Technical Services

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Katharine Christopoulos, CPA, CA
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277 Wellington Street West
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February 4, 2025

Ms. Christopoulos:

Ernst & Young LLP ("EY" or "we") welcome the opportunity to provide comments to the Accounting Standards Board ("AcSB" or the "Board") on the December 2024 Accounting for Common Control Combinations Exposure Draft (the "Exposure Draft"). Our responses to the specific questions posed in the Exposure Draft are included below.

Comments on Specific Questions Requested by the AcSB

1. The AcSB proposes options in paragraph 3840.44(b) to allow enterprises to account for the combined enterprise either as a new entity or as a continuation of one of the combining enterprises when carrying values are used to account for a combination under common control and an enterprise chooses to account for the combination prospectively from the transaction date. Do you agree with the proposal in paragraph 3840.44(b)? If not, why not and what alternatives should the Board consider?

   Yes, we agree with the proposal in paragraph 3840.44(b).

   That being said, we note that the AcSB proposes to amend the preamble in paragraph 3840.44 to use the term "business combination". The term "business combination" is defined in paragraph 1582.03(e), which says that "A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as "true mergers" or "mergers of equals" and transactions meeting the criteria in paragraph 3840.44(a) are also business combinations…".

   We note that the term "business combination", as defined in paragraph 1582.03(e), refers to the existence of an "acquirer", which may imply that a financial statement preparer must identify an acquirer in the transaction. This implication appears to contradict the discussions in paragraphs 9 to 11 of the Basis for Conclusions *section of the Exposure Draft, which imply that an intended outcome of the Exposure Draft is to avoid a potentially complex or onerous determination of the acquirer in a transfer of a business under common control.*

   Because the guidance is for an enterprise to apply business combination accounting, as provided in Section 1582, when all the criteria in paragraph 3840.44(a) are met, we suggest that the AcSB not refer to "business combination" outside of paragraph 3840.44(a). For example, in the preamble in paragraph 3840.44, the AcSB may consider alternative wording such as "a combination under common control involving a business".

2. The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2026, with earlier application permitted. The Board also proposes that the amendments be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.
   (a) Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2026, with earlier application permitted? If not, why not?
   (b) Do you agree that the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied? If not, why not?

   Yes, we agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2026, with earlier application permitted. We also agree that the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.

We would be pleased to discuss our comments with members of the AcSB or its staff. If you wish to do so, please contact Eric Spiekman, Professional Practice Director, at 416-943-3779 (Eric.G.Spiekman@ca.ey.com).

Yours sincerely,
ERNST & YOUNG LLP

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

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Accounting Standards Board
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February 12, 2025

SUBJECT: Exposure Draft – Accounting for common control combinations (December 2024)

Dear Ms. Christopoulos:

Doane Grant Thornton LLP and Raymond Chabot Grant Thornton LLP (hereinafter "we") would like to thank you for the opportunity to provide comments on the Accounting Standards Board's (hereinafter the "AcSB" or the "Board") Exposure Draft entitled *Accounting for Common Control Combinations* (hereinafter the "ED").

Although we support the AcSB's effort to continue improving and clarifying the accounting for combinations under common control under Accounting Standards for Private Enterprises (ASPE), we are strongly concerned that the amendments, as proposed, will create unforeseen consequences with respect to the accounting for vertical amalgamations of a Parent and one of its subsidiaries when it acquired it from a third party prior to the amalgamation. As a result of this issue, which we address in more detail in our response to Question 1 in the Appendix, we strongly believe that if the Board intends to issue the amendments as proposed, it is imperative that the AcSB scope out these types of vertical amalgamations until it clarifies the accounting treatment.

Please see the Appendix for our responses to the specific questions contained in the ED.

If you which to discuss our comments or concerns, please contact Melanie Joseph (mailto:Melanie.Joseph@doane.gt.ca, 416-607-2736) or Stéphane Landry (landry.stephane@rcgt.com, 418-647-5008).

Yours sincerely,

Doane Grant Thornton LLP

Raymond Chabot Grant Thornton LLP

Melanie Joseph, CPA, CA

Stéphane Landry, CPA auditor
Stéphanie Fournier, CPA auditor

APPENDIX

Responses to Exposure Draft questions

1. **The AcSB proposes options in paragraph 3840.44(b) to allow enterprises to account for the combined enterprise either as a new entity or as a continuation of one of the combining enterprises when carrying values are used to account for a combination under common control and an enterprise chooses to account for the combination prospectively from the transaction date. Do you agree with the proposal in paragraph 3840.44(b)? If not, why not and what alternatives should the Board consider?**

We do not agree with the amendments as proposed.

We believe proposed option ii), which consists of offering a free choice of whichever entity's figures can be presented as the comparative may be misleading depending on the situation, resulting in unforeseen accounting implications. For example, ParentCo has a December 31 year end. In its comparative period, it acquired from a third party, OpCo, a business, in a business combination transaction. Assume ParentCo never prepared consolidated financial statements and chose to present its investment in its subsidiary at cost. In the current year, the shareholder of ParentCo effected an amalgamation transaction of ParentCo with its subsidiary; this implies that there was a common control combination in that a new entity, AmalCo was created and ParentCo's net assets and OpCo's business were transferred to this entity which is under the common control of the shareholder of ParentCo. The current wording of paragraph 3840.44(b)(ii) seems to suggest that ParentCo can ignore the business combination that occurred in the previous year and combine ParentCo and OpCo using their respective carrying amounts from their individual financial statements from the date of the amalgamation. The comparative could then only reflect the carrying amounts of ParentCo from the previous fiscal year.

Interpreting the current wording of paragraph 3840.44(b)(ii) this way appears to allow entities to ignore the business combination accounting under Section 1582 *Business Combinations* for any acquisitions of control that happened in the past. Considering this, we are strongly concerned stakeholders will see the current wording as a way to avoid business combination accounting, which we believe is not the appropriate treatment. We believe that many preparers and practitioners interpret these types of transactions as falling under paragraph 3840.44(b) and previously, many interpreted the Section 3840.44(b) (pre-all revisions) to require presentation of such an amalgamation as if the ParentCo and OpCo were combined from the time of the business combination.

We can generally support a pick your option approach for the comparative figures in most cases as long as there is appropriate disclosure as to what occurred and how the financial statements are being presented, such as when two subsidiaries are amalgamated (horizontal merger) or one subsidiary transfers a business to another. However, we strongly believe there are significant issues that cannot go unresolved pertaining to the example we presented above. To address this concern, until such time the AcSB can address the accounting for vertical amalgamations of a Parent with one of its subsidiaries it has acquired from a third party in the past we propose some potential solutions:

1. Scope out this type of merger/amalgamation from paragraph 3840.44.
2. Do not release the current amendments as proposed and revisit entire paragraph 3840.44 as part of an entire new project revisiting Section 3840 *Related party transactions*. This choice would allow entities to interpret the current wording using their own professional judgment.

Other comments on the proposed amendments

Below are additional comments, in the case that the Board releases the amendments as proposed:

- *Reference to the word "historical"*

  The proposed amendments add the word "historical" when referring to "carrying amounts" in paragraph 3840.44(b). In our view, adding this word does not add any further clarification to paragraph 3840.44(b). We suggest the AcSB remove the word to avoid confusion or otherwise explain why the use of this word is important.

- *Change in the wording used to describe the type of transactions within the scope of paragraph 3840.44*

  The proposed amendments include a change in the wording used to describe the type of transactions within the scope of paragraph 3840.44, i.e., from "business transferred between two enterprises under common control" to "business combination under common control."

  Although we welcome this amendment, to avoid confusion, we suggest the Board slightly modify it to use wording consistent with the wording in paragraph 1582.02 (b) which scopes out "a combination between entities or businesses under common control" accounted for at carrying amount. We reiterate that clear additional guidance would be needed to scope-out vertical amalgamations from paragraph 3840.44; this change in wording also contributing to the unforeseen accounting implications described previously.

2. The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2026, with earlier application permitted. The Board also proposes that the amendments be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.

(a) Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2026, with earlier application permitted? If not, why not?

Yes, we agree with the proposed amendments.

(b) Do you agree that the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied? If not, why not?

Yes, we agree with the proposed amendments.

February 14, 2025

Ms. Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Ms. Christopoulos:

Re: Exposure Draft – Accounting for Common Control Combinations (*the Exposure Draft*)

We welcome the opportunity to comment on the Accounting Standards Board's (AcSB or the Board) Exposure Draft, *Accounting for Common Control Combinations*.

1. The AcSB proposes options in paragraph 3840.44(b) to allow enterprises to account for the combined enterprise either as a new entity or as a continuation of one of the combining enterprises when carrying values are used to account for a combination under common control and an enterprise chooses to account for the combination prospectively from the transaction date. Do you agree with the proposal in paragraph 3840.44(b)? If not, why not and what alternatives should the Board consider?

   We agree with the options in paragraph 3840.44(b), subject to the wording suggestions highlighted below.

   We propose that the Board keeps the original wording "a business transferred between two enterprises under common control" in the first sentence of paragraph 3840.44. We believe the scope of this phrase is well understood. Further we do not believe the change is necessary for the revised paragraph 3840.44(b) to be implemented. Changing the wording to "a business combination under common control" potentially changes the scope of this paragraph, which may cause challenges for two reasons:

   - this would require an entity to assess whether the transaction meets the definition of a business combination, defined in Section 1582 *Business Combinations* as "...a transaction or other event in which an acquirer obtains control of one or more businesses." The application of this definition involves both identifying an acquirer and acquiree, in order to determine whether the acquirer has obtained control of a business. As noted by the Board in the Exposure Draft, this could be complex or onerous for private enterprises in some scenarios; and
   - previously, this paragraph applied to restructuring transactions that involved the transfer of businesses, but did not meet the definition of a business combination. Changing the wording excludes these transactions from the scope of this paragraph.

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We also recommend the amendments include an edit in paragraph 3840.44(b) to remove the word “historical” from the requirement to recognize the combined assets and liabilities at “their historical carrying amount”. The term “carrying amount” is already defined in paragraph 3840.03(a). It is unclear on how “historical carrying amount” is different, or whether it should be interpreted differently. We believe the term “carrying amount” is sufficiently clear and its use aligns with the measurement guidance throughout Section 3840 Related Party Transactions. Therefore, we believe the proposed edit is not necessary and may be confusing.

2. The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2026, with earlier application permitted. The Board also proposes that the amendments be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.

   a. Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2026, with earlier application permitted? If not, why not?

      Yes, we agree.

   b. Do you agree that the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied? If not, why not?

      Yes, we agree.

We would be pleased to respond to any questions you might have. Questions can be addressed to Celeste Murphy (celeste.k.murphy@pwc.com) or Sean Cable (sean.c.cable@pwc.com).

Yours very truly,

PricewaterhouseCoopers LLP

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February 14, 2025

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
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277 Wellington Street West
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Subject: Invitation to Comment - Exposure Draft: Amendments to Accounting for Common Control Combinations

Dear Ms. Christopoulos:

We thank you for the opportunity to provide comments on the above noted Exposure Draft regarding improvements to Accounting for Common Control Combinations.

We recognize the concerns raised by stakeholders and are supportive of the Accounting Standard Board's proposed narrow-scope amendments to *Related Party Transactions*, Section 3840.

Please find attached our comments to the specific questions raised in the Exposure Draft. If you have any questions, please contact Martin Roy (mroy@deloitte.ca) at 416-601-5679.

Yours truly,

Deloitte LLP

Chartered Professional Accountants

Appendix
Accounting for Combinations under Common Control

1. **The AcSB proposes options in paragraph 3840.44(b) to allow enterprises to account for the combined enterprise either as a new entity or as a continuation of one of the combining enterprises when carrying values are used to account for a combination under common control and an enterprise chooses to account for the combination prospectively from the transaction date. Do you agree with the proposal in paragraph 3840.44(b)? If not, why not and what alternatives should the Board consider?**

   We agree with the proposal in paragraph 3840.44(b) to provide an option to account for the combined enterprise either as a new entity or as a continuation of one of the combining enterprises when carrying values are used to account for a common control combination prospectively from transaction date. By doing so, it eliminates the need to identify an "acquirer" which in some cases may be complex and onerous for private enterprises.

   We also note that the option for prospective application as either a new entity or a continuation of one of the combining enterprises will allow preparers to select the policy that will prepare the most relevant financial information for its group of users and are therefore supportive of the proposed changes.

   In view of providing preparers a policy choice when accounting for common control combinations prospectively, we believe additional guidance in the following areas would also be beneficial:

   - Describe the minimum disclosures required when applying paragraph 3840.44(b)(i) or (ii);
   - Details should be added concerning the recognition of the adjustment resulting from the consolidation when the entity chooses to apply paragraph 3840.44(b)(ii), in particular in which equity account should the adjustment to net assets be recognized in.

   We would also like the Board to reconsider the use of the term "business combination" in paragraph 44. The term "business combination" is a defined in Section 1582, *Business Combinations*, and the use of this term suggests that an entity must first determine if the combining entities meet the definition of a business and if there was an acquisition of control under Section 1582 in order to apply paragraph 44. This may lead to ambiguity in determining if paragraph 44 applies situations where one or both of the combining entities do not meet the definition of a business. Additionally, by its nature, a common control combination also does not result in an acquisition of control. Therefore, we suggest "business combination under common control" be replaced with "combination of enterprises under common control".

2. **The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2026, with earlier application permitted. The Board also proposes that the amendments be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.**

   (a) **Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2026, with earlier application permitted? If not, why not?**

   Yes, we agree with the proposed effective date of fiscal years beginning on or after January 1, 2026, with earlier application permitted.

(b) **Do you agree with the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied? If not, why not?**

Yes, we agree that the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.

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February 13, 2025

Re: AcSB Exposure Draft – Accounting for Common Control Combinations ("the Exposure Draft")

Dear Ms. Christopoulos,

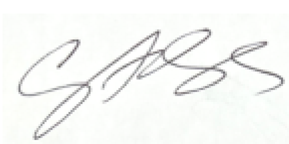
We have reviewed the Exposure Draft issued in December 2024 and are grateful for the opportunity to provide our feedback. After careful consideration, we have outlined our responses to your specific questions below.

We support the proposals included in the Exposure Draft. However, we have noted some areas where clarification may be needed to ensure consistent application. Notably with respect to references to financial statement user needs in the Basis for Conclusions and the applicability of Section 1500 *First-time Adoption* to situations where a combining enterprise has not previously adopted Accounting Standards for Private Enterprises.

Please note that our comments are restricted to the proposed amendments rather than wider application issues that have been noted with respect to Section 3840 *Related Party Transactions* and the application of paragraph 3840.44.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me at 647-798-1331 or via email at ccross@bdo.ca.

Yours sincerely,



Craig Cross, CPA, CA
Partner, National Accounting Standards
(through a Professional Corporation)
BDO Canada LLP

1. *The AcSB proposes options in paragraph 3840.44(b) to allow enterprises to account for the combined enterprise either as a new entity or as a continuation of one of the combining enterprises when carrying values are used to account for a combination under common control and an enterprise chooses to account for the combination prospectively from the transaction date. Do you agree with the proposal in paragraph 3840.44(b)? If not, why not and what alternatives should the Board consider?*

We agree with the proposal in paragraph 3840.44(b) to allow enterprises to account for the combined enterprise as either a new entity or as a continuation of one of the combining enterprises. The proposed amendment provides clarity to the amendments issued in September 2023.

We have noted some areas for additional clarification and guidance to improve consistency of application:

<u>Clarification of 3840.44(b)(i) and 3840.44(b)(ii)</u>

We would like to recommend some additional updates to the proposed wording to further clarify the amendments:

1. In paragraph 3840.44(b)(i), we recommend updating the proposed wording as follows:

(i) from the date that the combination occurred as a new <u>reporting</u> entity

We believe that this will clarify that this option is available even when a new entity is not legally created.

2. In paragraph 3840.44(b)(ii), we recommend updating the proposed wording as follows:

(ii) from the date that the combination occurred as a continuation of <u>either</u> ~~one~~ of the combining enterprises <u>and presenting the comparative figures and information of that enterprise</u>;

We believe this clearly indicates that an entity applying paragraph 3840.44(b)(ii) has a choice when selecting which enterprise is continuing for the purposes of presentation and disclosure.

<u>Consideration of User Needs in the Basis for Conclusions</u>

We also note that paragraph 16 of the Basis for Conclusions indicates that the enterprise has a choice to account for the transaction in a way that is useful to the financial statement users. The needs of users are also referenced in paragraphs 12, 14 and 15 of the Basis for Conclusions. During our internal outreach, some noted that this could be interpreted as compelling financial statement preparers to select the method of accounting under 3840.44(b) that results in the most reliable and relevant information. This may result in restricted application of paragraph 3840.44(b)(i) and 3840.44(b)(ii) thereby limiting the benefit realized from the amendments. Further, formally preparing such an analysis could be onerous given the needs of different user groups.

Our understanding is that an enterprise may consider the needs of users when selecting a method of accounting for a transaction under 3840.44(b), however may also balance this with other factors such as the availability of information and cost of preparing such information. Further, our understanding is that discretion may be applied when selecting which combining enterprise's information to present under 3840.44(b)(ii).

Therefore, we recommend that the Basis for Conclusions be updated to encourage preparers to apply the amendments to 3840.44(b) in a way that is useful to the users of the financial statements, but to clarify that the method of presentation is a choice.

Measurement of the Carrying Amount

During our outreach for this Exposure Draft, questions were raised in terms of how the carrying amounts would be measured for a combining enterprise that has not previously reported under ASPE where paragraph 3840.44(b)(i) or 3840.44(b)(ii) is applied. We understand that one of the intents of providing the relief from retrospective restatement proposed by the Board in the September 2023 amendments was to benefit enterprises in such situations.

Is the intention of the Board to require a combining enterprise that had previously not reported under ASPE to perform a full adoption of the framework? If not, we note that the exemptions in 1500 *First-time adoption*, paragraph 9 provide relief upon adoption of ASPE that may also be useful when measuring the carrying amounts where paragraph 3840.44(b)(i) or 3840.44(b)(ii) is applied. To improve consistency in application, we recommend that the Board provide clarification and guidance as to if the exemptions noted in paragraph 1500.09 would be applicable when measuring the carrying amounts under ASPE for a combining enterprise that had not previously adopted ASPE.

2. *The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2026, with earlier application permitted. The Board also proposes that the amendments be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.*

    (a) Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2026, with earlier application permitted? If not, why not?

    We agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2026, with earlier application permitted. When clarifying a recent amendment, a shorter implementation time is preferred to reduce diversity in practice.

    (b) Do you agree that the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied? If not, why not?

    We agree the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied. We believe this is a practical approach as we do not believe the benefits of retroactive application would outweigh the costs.

ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

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Montréal, le 19 février 2025

Katharine Christopoulos, CPA, CA
Directrice, Normes comptables
Conseil des normes comptables
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Madame,

Vous trouverez ci-joint les commentaires du Groupe de travail technique NCECF – Comptabilité financière – Partie II, mis en place par l'Ordre des comptables professionnels agréés du Québec, concernant l'exposé-sondage intitulé « Traitement comptable des regroupements d'entreprises sous contrôle commun ».

Veuillez prendre note que l'Ordre des comptables professionnels agréés du Québec agit seulement à titre de facilitateur et ce document ne constitue pas une réponse de ce dernier, mais le point de vue des membres participant aux groupes de travail. De plus, ni l'Ordre des comptables professionnels agréés du Québec, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à leur utilisation et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires, comme décrit dans le déni de responsabilité joint à la présente.

Veuillez agréer, Madame Christopoulos, nos salutations distinguées.

Sophie Bureau, CPA auditrice

Représentante du Groupe de travail technique NCECF – Comptabilité financière – Partie II de l'Ordre des comptables professionnels agréés du Québec

p. j. Déni de responsabilité et commentaires

DÉNI DE RESPONSABILITÉ

Les documents préparés par les Groupes de travail techniques et sectoriels de l'Ordre des comptables professionnels agréés du Québec (Ordre) ci-après appelés les « commentaires », sont fournis selon les conditions décrites dans la présente, pour faire connaître l'opinion des groupes de travail sur des énoncés de principes, des documents de consultation, des exposés-sondages préliminaires ainsi que des exposés-sondages publiés par le Conseil des normes comptables, le Conseil des normes d'audit et de certification, le Conseil sur la comptabilité dans le secteur public, le Conseil sur la gestion des risques et la gouvernance et d'autres organismes.

Les commentaires fournis par ces comités ne doivent pas être utilisés comme substitut à des missions confiées à des professionnels spécialisés. Il est important de noter que les lois, les normes et les règles sur lesquelles sont émis les commentaires peuvent changer en tout temps et que, dans certains cas, les commentaires écrits peuvent être sujets à controverse.

Ni l'Ordre, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à l'utilisation de ces commentaires et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires. Les commentaires donnés ne lient pas, par ailleurs, les membres des Groupes de travail, l'Ordre ou, de façon plus particulière, le Bureau du syndic de l'Ordre.

La personne qui se réfère ou utilise ces commentaires assume l'entière responsabilité de sa démarche ainsi que tous les risques liés à l'utilisation de ceux-ci. Elle consent à exonérer l'Ordre à l'égard de toute demande en dommages-intérêts qui pourrait être intentée par suite de toute décision qu'elle aurait pu prendre en fonction de ces commentaires. Elle reconnaît également avoir accepté de ne pas faire état de ces commentaires reçus via les Groupes de travail dans les avis exprimés ou les positions prises.

MANDAT DES GROUPES DE TRAVAIL DE L’ORDRE

Les Groupes de travail de l’Ordre des comptables professionnels agréés du Québec ont comme mandat notamment de recueillir et de canaliser le point de vue des praticiens exerçant en cabinet et de membres œuvrant dans les affaires, dans les services gouvernementaux et dans l’industrie ainsi que le point de vue d’autres personnes concernées œuvrant dans des domaines d’expertise connexes.

Pour chaque exposé-sondage ou autre document étudié, les membres des Groupes de travail mettent leurs analyses en commun. Les commentaires ci-dessous reflètent les points de vue exprimés et, sauf indication contraire, ces commentaires font l’objet d’un consensus parmi les membres des Groupes de travail ayant participé à cette analyse.

Les commentaires formulés par les Groupes de travail ne font l’objet d’aucune sanction de l’Ordre. Ils n’engagent pas la responsabilité de celui-ci.

COMMENTAIRES GÉNÉRAUX

Accueil favorable

Le groupe accueille favorablement la publication de cet exposé-sondage, puisqu'il répond à certaines questions qu'il a lui-même soulevées, notamment dans sa réponse du 23 janvier 2023 à l'exposé-sondage précédent sur le paragraphe 3840.44, en ce qui a trait à l'identification d'un acquéreur et aux chiffres comparatifs à présenter.

Disponibilité pour en discuter ou pour réviser

Les membres du groupe et le personnel de l'Ordre sont disponibles pour discuter des commentaires de la présente lettre avec le CNC ou avec des membres du personnel du CNC ou pour réviser le texte des modifications avant qu'il soit finalisé. Une rencontre spéciale du groupe, ou de quelques-uns de ses membres, pourrait par exemple être convoquée par l'Ordre.

Indications nécessaires – Fusion entre une société mère et sa filiale

Le groupe réitère l'importance que soient rapidement publiées des indications pour clarifier les exigences des NCECF devant être appliquées lors d'une fusion entre une société mère et sa filiale. À tout le moins, si le CNC juge que le paragraphe 3840.44 ne s'applique pas à une telle fusion, il devrait l'indiquer rapidement. Ces clarifications sont nécessaires pour les raisons qui suivent :

- Prévalence : Ces transactions sont fréquentes et la question se pose souvent dans la pratique, c'est-à-dire presque hebdomadairement pour plusieurs membres du groupe.
- Foisonnement des pratiques :
    - Parfois, une telle fusion n'est pas considérée comme une opération entre apparentés, à laquelle s'appliquerait le chapitre 3840, *Opération entre apparentés*. La fusion est considérée, en substance, comme un changement de méthode comptable, comme si la filiale était maintenant consolidée plutôt que comptabilisée au coût ou à la valeur de consolidation. Ceci mène généralement à un ajustement rétrospectif des montants comparatifs, en utilisant les mêmes montants pour la filiale que ceux qui auraient figurés dans des états financiers consolidés (donc tenant compte de l'allocation du prix d'achat). Puisqu'aucun chapitre des NCECF n'est clairement applicable, les informations fournies dans les états financiers ne sont pas toujours les mêmes et ne sont pas toujours cohérentes avec celles requises par les alinéas 1506.35 c) et d).

- Parfois, une telle fusion est considérée comme une opération entre apparentés et l'alinéa 3840.44 b) est appliqué ou partiellement appliqué. Dépendamment du sous-alinéa choisi l'opération pourra être présentée prospectivement ou rétrospectivement. Les membres prévoient que, comme c'est actuellement le cas, parfois les montants utilisés seront ceux figurant dans le bilan de l'entreprise (donc ne tenant pas compte du prix payé et donc sans écart d'acquisition, à moins qu'ils aient fait l'objet d'une réévaluation selon le chapitre 1625, Réévaluation intégrale des actifs et des passifs.) et parfois les montants utilisés seront ceux qui auraient figurés dans des états financiers consolidés (donc tenant compte de l'allocation du prix d'achat et excluant les bénéfices non répartis de la filiale avant l'acquisition de son contrôle par la société mère).
    - Dans l'arbre de décision du « Document d'information sur les NCECF – Normes comptables pour les entreprises à capital fermé (NCECF) - FUSIONS D'ENTREPRISES ENTIÈREMENT DÉTENUES », publié par CPA Canada et **très utilisé dans la pratique**, l'alinéa 3840.44 b) est appliqué dans les exemples 1 et 2 d'une fusion entre une société mère et sa filiale. Dans l'exemple 2 d'une filiale acquise d'une partie non apparentée puis fusionnée avec la société mère, les montants utilisés sont ceux qui auraient figurés dans des états financiers consolidés.

- Confusion et difficultés : Le manque d'indications claires cause de la confusion et complexifie le travail de plusieurs parties prenantes, notamment :
    - les préparateurs d'états financiers;
    - les professionnels en exercice;
    - les utilisateurs d'états financiers, comme les prêteurs;
    - les CPA qui développent des outils et des activités de formation et qui les animent (états financiers modèles, guide d'application, cours de formation, etc.);
    - les membres du personnel de l'Ordre des CPA du Québec, notamment les inspecteurs et ceux qui répondent aux demandes de références techniques des CPA et du public.
- Coûts : Le manque d'indications claires engendre des coûts non négligeables et fait perdre du temps précieux aux parties prenantes, dans un contexte de manque de personnel.

QUESTIONS SPÉCIFIQUES DU CNC

Question 1 : *Le CNC propose d'intégrer à l'alinéa 3840.44 b) le choix de comptabiliser l'entreprise issue du regroupement soit comme une nouvelle entité, soit comme une continuation de l'une des entreprises parties au regroupement, lorsque les valeurs comptables sont utilisées pour la comptabilisation d'un regroupement d'entreprises sous contrôle commun et que l'entreprise choisit la comptabilisation prospective du regroupement à compter de la date à laquelle a eu lieu l'opération. Appuyez-vous cette proposition? Dans la négative, pourquoi, et quelles solutions le CNC devrait-il envisager?*

Oui, les membres appuient cette proposition. Ils invitent toutefois le CNC à tenir compte des commentaires qui suivent.

- <u>« Entreprises » vs « entités » et « regroupement d'entreprises » (début 3840.44 et alinéa 3840.44 b) au complet)</u> :

  Actuellement et selon les propositions du CNC, le début du paragraphe 3840.44 et l'alinéa 3840.44 b) mentionnent à quelques reprises les mots « entreprises » ou « entreprise », alors que le paragraphe 3840.44 ne s'applique pas seulement à un ensemble d'activités et d'actifs qui répond à la définition d'une entreprise de l'alinéa 3840.03 j).

  De plus, au début du paragraphe 3840.44 le CNC propose de remplacer « la cession d'une entreprise entre deux entreprises sous contrôle commun » par « un regroupement d'entreprises sous contrôle commun », alors que des transactions visées par le paragraphe 3840.44 ne répondent pas à la définition d'un regroupement d'entreprises de l'alinéa 1582.03 e). Notamment, la définition d'un regroupement d'entreprises de l'alinéa 1582.03 e) exige qu'un acquéreur obtienne le contrôle d'une entreprise, alors que le sous-alinéa 3840.44 a) ii) exige seulement que la modification des droits de propriété soit réelle (des parties non apparentées doivent avoir acquis ou cédé au moins 20 % du total des droits de propriété selon le paragraphe 3840.35).

  Les membres reconnaissent qu'il est difficile de trouver une solution simple et parfaite à ces enjeux. À titre de compromis aux fins du présent exposé-sondage qui vise des modifications de portée limitée, les membres proposent :

  - Au début du paragraphe 3840.44, d'écrire « **un regroupement d'entités ou d'entreprises sous contrôle commun** », <u>soit la même expression que celle utilisée à l'alinéa 1582.02 b), qui réfère à 3840.44 b)</u>.

- Partout dans l'alinéa 3840.44 b), d'écrire « **entités ou entreprises** ».

Un membre a proposé d'éventuellement définir l'expression « regroupement d'entités ou d'entreprises » aux fins de l'application du chapitre 3840.

Des membres ont proposé d'utiliser une expression qui exclut le mot « regroupement », telle que « groupement d'entités ou d'entreprises sous contrôle commun », « agglomération d'entités ou d'entreprises sous contrôle commun » ou « combinaison d'entités ou d'entreprises sous contrôle commun ». Ces expressions sont jugées intéressantes par les membres si leur sens en français est acceptable, en s'assurant de les utiliser partout où elles doivent l'être, y compris à l'alinéa 1582.02 b), au début du paragraphe 3840.44 et dans l'alinéa 3840.44 b) au complet.

Un membre a proposé d'utiliser l'expression « réorganisation d'entités ou d'entreprises sous contrôle commun », qui devrait toutefois être définie pour être bien comprise.

Les membres sont généralement favorables à la modification de la terminologie utilisée au début du paragraphe 3840.44 mais sont préoccupés que ce changement entraîne des conséquences imprévues, notamment en contribuant davantage à la confusion actuelle à l'égard du traitement comptable des fusions entre une société mère et sa filiale, tel que détaillé précédemment à la section COMMENTAIRES GÉNÉRAUX de notre réponse.

- « Les actifs et les passifs cumulés » et « valeur comptable historique » (3840.44 b)) :

Des membres craignent que l'utilisation du mot « cumulés » amène de la confusion puisque ce mot est généralement utilisé dans le contexte d'états financiers cumulés qui, selon le paragraphe 1601.05, suivent des règles semblables à celles suivies dans la préparation d'états financiers consolidés, alors que l'alinéa 3840.44 b) exige d'utiliser la valeur comptable figurant dans le bilan de l'entreprise cédée, c'est-à-dire une valeur potentiellement différente de celle qui figurerait dans des états financiers consolidés.

De plus, selon les membres, la signification de l'expression « valeur comptable historique » dans le contexte de cet alinéa n'est pas claire. D'autant plus que la définition de valeur comptable à l'alinéa 3840.03 a) réfère à la valeur d'un élément transféré dans les comptes du cédant, alors qu'à l'alinéa 3840.44 b) le CNC propose de retirer toute allusion à un acquéreur et à un cédant.

Les membres proposent d'écrire :

> « b) …l'**entité ou l'entreprise** issue du regroupement comptabilise dans son bilan **les actifs et les passifs des entités ou entreprises se regroupant à leur valeur qui figurait dans leur bilan respectif immédiatement avant le regroupement** et… Pour

chaque opération, les états financiers de l'**entité ou de l'entreprise** issue du regroupement doivent présenter le résultat, les actifs et les passifs **des entités ou entreprises se regroupant**… ».

- Ajout d'une alternative comme sous-alinéa 3840.44 b) iv) :
  Des membres proposent d'ajouter à l'alinéa 3840.44 b) la possibilité de présenter le résultat, les actifs et les passifs des entités ou entreprises se regroupant pour toute la période au cours de laquelle a lieu le regroupement, sans le faire pour les périodes antérieures.

  La présentation à l'état des résultats des opérations des 12 mois de l'exercice courant des deux entités répondrait au besoin de certains utilisateurs des états financiers, comme des prêteurs, dans le cas où le regroupement a lieu à une date différente de celle du début de l'exercice des entités se regroupant, tout en minimisant les coûts parfois jugés inutiles liés à la présentation des périodes antérieures requises par le sous-alinéa 3840.44 b) iii). Cet ajout permettrait également d'éviter une réserve au rapport de l'auditeur ou de mission d'examen du professionnel en exercice lorsque de tels états financiers sont préparés.

- Ajout d'un exemple :
  Afin de clarifier et d'illustrer les exigences des alternatives permises à l'alinéa 3840.44 b), les membres proposent d'ajouter l'exemple qui suit comme paragraphe 3840.44A. Cet exemple est inspiré de l'exemple 4 du « Document d'information sur les NCECF – Normes comptables pour les entreprises à capital fermé (NCECF) - FUSIONS D'ENTREPRISES ENTIÈREMENT DÉTENUES », publié par CPA Canada.

  > « 3840.44A Par exemple, la société par actions XYZ a acquis la totalité des actions de Filiale A et de Filiale B en 20X5. XYZ a fusionné Filiale A et Filiale B le 31 mai 20X8. L'entité issue du regroupement se nomme AB. La date de clôture de toutes les entités est le 31 décembre. Les états financiers de AB pour l'exercice terminé le 31 décembre 20X8 peuvent, au choix, être préparés de l'une ou l'autre des façons suivantes :
  >
  > - 3840.44 b) i) : Aucun montant n'est présenté dans les états financiers de AB pour l'exercice terminé le 31 décembre 20X7. Aucun bénéfice non réparti n'est présenté au 1er janvier 20X8 dans l'état des bénéfices non répartis. La valeur des actifs, passifs et bénéfices non répartis de Filiale A et Filiale B qui figuraient dans leur bilan respectif au 31 mai 20X8 sont présentés comme un ajustement dans l'état des bénéfices non répartis de AB le 1er juin 20X8 (incluant le résultat net de Filiale A et Filiale B du 1er janvier 20X8 au 31 mai 20X8). L'état des résultats de

AB pour 20X8 présente 7 mois de résultats, c'est-à-dire du 1er juin 20X8 au 31 décembre 20X8.

- 3840.44 b) ii) : Les montants dans les états financiers de AB pour l'exercice terminé le 31 décembre 20X7 et jusqu'au 31 mai 20X8 sont ceux de Filiale A ou de Filiale B, au choix. La valeur des actifs, passifs et bénéfices non répartis de l'autre filiale qui figuraient dans son bilan au 31 mai 20X8 sont présentées comme un ajustement dans l'état des bénéfices non répartis de AB le 1er juin 20X8 (incluant le résultat net de l'autre filiale du 1er janvier 20X8 au 31 mai 20X8). L'état des résultats de AB pour 20X8 présente 12 mois de résultats, qui excluent ceux de l'autre filiale du 1er janvier 20X8 au 31 mai 20X8.
- 3840.44 b) iii) : Les montants dans les états financiers de AB pour l'exercice terminé le 31 décembre 20X7 sont ceux de Filiale A et de Filiale B qui figuraient dans leurs états financiers respectifs, incluant le solde de leurs bénéfices non répartis au 1er janvier 20X7 qui est présenté comme solde d'ouverture des bénéfices non répartis à cette date. L'état des résultats de AB pour 20X8 présente 12 mois de résultats, qui incluent ceux de Filiale A et de Filiale B du 1er janvier 20X8 au 31 mai 20X8.
- 3840.44 b) iv) : Aucun montant n'est présenté dans les états financiers de AB pour l'exercice terminé le 31 décembre 20X7. La valeur des bénéfices non répartis de Filiale A et Filiale B qui figuraient dans leur bilan respectif au 31 décembre 20X7 sont présentés comme solde d'ouverture dans l'état des bénéfices non répartis de AB le 1er janvier 20X8. L'état des résultats de AB pour 20X8 présente 12 mois de résultats, c'est-à-dire du 1er janvier 20X8 au 31 décembre 20X8.

Dans aucune de ces alternatives il ne faut procéder à la réévaluation des comptes de Filiale A ou de Filiale B ou à des ajustements pour refléter le prix d'acquisition de la filiale par XYZ. Ces ajustements sont toutefois requis si XYZ prépare des états financiers consolidés.

Peu importe l'alternative choisie, les montants au bilan de AB au 31 décembre 20X8 seront identiques, dont le solde des bénéfices non répartis.

Peu importe l'alternative choisie, les bénéfices non répartis de AB au 31 décembre 20X8 comprennent ceux de Filiale A et de Filiale B avant leur acquisition par XYZ. »

- Informations à fournir

  Méthode choisie

  Les membres proposent d'ajouter à l'alinéa 3840.51 h) l'obligation de fournir la méthode choisie selon l'alinéa 3840.44 b) pour présenter le résultat, les actifs et les passifs des entités ou entreprises se regroupant, et ce pour chaque opération de regroupement d'entités ou d'entreprises sous contrôle commun lorsque les critères de l'alinéa 3840.44 a) ne sont pas atteints.

  Selon l'alinéa 3840.51 c) et le paragraphe 3840.58

  Les membres souhaitent que des précisions soient apportées quant aux informations à fournir afférentes à un regroupement d'entités ou d'entreprises sous contrôle commun pour répondre à l'exigence de l'alinéa 3840.51 c) et du paragraphe 3840.58 de divulguer les montants pour lesquels les opérations ont été comptabilisées, pour chacune des façons de comptabiliser une telle opération selon l'alinéa 3840.44 b).

  Selon les membres, la façon la plus simple de le faire est par le biais de l'exemple qu'ils proposent au point précédent (3840.44A) en y ajoutant quelles informations doivent être fournies.

Question 2 : *Le CNC propose que les modifications s'appliquent pour les exercices ouverts à compter du 1er janvier 2026 et qu'une application anticipée soit permise. Il propose également que les modifications soient appliquées de manière prospective aux nouvelles opérations de regroupement conclues à compter du début de l'exercice de première application des modifications.*

a. *Êtes-vous d'accord que les modifications proposées devraient s'appliquer pour les exercices ouverts à compter du 1er janvier 2026 et que l'application anticipée devrait être permise? Dans la négative, pourquoi?*

   Oui, les membres sont d'accord avec cette proposition.

b. *Êtes-vous d'accord que les modifications proposées devraient être appliquées de manière prospective aux nouvelles opérations de regroupement conclues à compter du début de l'exercice de première application des modifications? Dans la négative, pourquoi?*

   Oui, les membres sont d'accord avec cette proposition.

AUTRES COMMENTAIRES

Paragraphe 3840.07A à propos du texte non modifié du chapitre 3840

Le paragraphe 3840.07A a été ajouté il y a quelques années. Il exige qu'à la lecture du chapitre 3840 l'expression « opération entre apparentés » et les mentions d'éléments transférés soient partout interprétées comme se rapportant aux éléments non financiers transférés dans une opération entre apparentés, puisque les instruments financiers transférés dans une opération entre apparentés doivent être évalués conformément au chapitre 3856.

Les membres réitèrent la demande qu'ils ont déjà faite que le CNC supprime le paragraphe 3840.07A et modifie adéquatement l'entièreté du texte du chapitre 3840. Selon les membres, plusieurs utilisateurs du chapitre 3840 oublient ce paragraphe lorsqu'ils appliquent le chapitre. De plus, il arrive fréquemment que des passages spécifiques du chapitre soient lus et appliqués sans que le paragraphe 3840.07A soit lu et considéré. Ceci augmente les risques d'erreurs et complique la compréhension et l'application du chapitre 3840. Une alternative, jugée toutefois moins intéressante, serait d'ajouter un astérisque à chaque endroit où l'expression « opération entre apparentés » est utilisée et à chaque endroit où « des éléments transférés » doivent être interprétés comme se rapportant aux éléments non financiers.

ORDRE DES COMPTABLES
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Montreal, January 19, 2025

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

Dear Ms. Christopoulos:

Please find enclosed the comments of the Technical Working Group on ASPE – Financial accounting – Part II, established by the Ordre des comptables professionnels agréés du Québec (the Order), on the Exposure Draft entitled "Accounting for Common Control Combinations."

Please note that the Order is only a facilitator, and that this document does not constitute a response by the Order, but the views of the working group members. In addition, neither the Order nor any of the persons involved in preparing the comments shall have any liability in relation to their use, and no guarantee whatsoever shall be provided regarding these comments, as described in the following disclaimer.

Yours truly,

Sophie Bureau, CPA auditor

Representative of the Technical Working Group on ASPE – Financial accounting – Part II of the Ordre des comptables professionnels agréés du Québec

Encl. Disclaimer and comments

DISCLAIMER

Subject to the conditions described herein, the documents prepared by the working groups of the Ordre des comptables professionnels agréés du Québec (the Order), hereinafter referred to as the “comments,” provide their opinion on statements of principles, documents for comment, associates’ drafts and exposure drafts published by the Accounting Standards Board, Auditing and Assurance Standards Board, Public Sector Accounting Board, Risk Management and Governance Board, and other organizations.

The comments submitted should not be relied upon as a substitute for engagements entrusted to professionals with specialized knowledge in their field. It is important to note that the legislation, standards and rules on which the comments are based may change at any time and that, in some cases, the comments may be controversial.

Neither the Order nor any person involved in preparing these comments shall have any liability in relation to their use, and no guarantee whatsoever shall be provided regarding these comments. These comments are not binding on the members of the working groups, the Order, or the Office of the syndic in particular.

Users of the comments shall take full responsibility for, and assume all risks relating to, the use of the comments. They agree to release the Order from any claim for damages that could result from a decision they made based on these comments. They also agree not to mention the comments in the opinions they express or the positions they take.

Comments of the Technical Working Group on ASPE – Financial accounting – Part II of the Ordre des comptables professionnels agréés du Québec on the Exposure Draft entitled “Accounting for Common Control Combinations.”

TERMS OF REFERENCE OF THE WORKING GROUPS

The working groups of the Ordre des comptables professionnels agréés du Québec are to collect and channel the views of practitioners and members in business, government, and industry, as well as those of other persons working in related areas of expertise.

For each exposure draft or other document reviewed, the working group members share the results of their analysis. Consequently, the comments below reflect the views expressed and, unless otherwise specified, all of the working group members agree on these comments.

The Order does not act upon and is not responsible for the comments made by the working groups.

GENERAL COMMENTS

Well received

The group welcomes the publication of this exposure draft, since it answers some of the questions the group raised in its January 23, 2023 response to the previous exposure draft on paragraph 3840.44 regarding the identification of an acquirer and the comparative figures to be presented.

Available for discussion and review

The members of the group and Order staff are available to discuss the comments in this letter with the AcSB or AcSB staff and review the wording of the amendments before they are finalized. The Order could convene a special meeting of the group or of some of its members as needed.

Guidance needed – Merger between a parent company and its subsidiary

The group would like to reiterate the importance of issuing guidance as soon as possible to clarify the ASPE requirements to be applied in a merger between a parent company and its subsidiary. At a minimum, if the AcSB considers that paragraph 3840.44 does not apply to such mergers, it should communicate that information immediately. This guidance is needed because:

- Prevalence: These transactions are common and the question comes up often in practice, i.e., almost weekly for several group members.
- Inconsistency in practices:
  - Sometimes, these types of mergers are not considered related party transactions, to which Section 3840, Related Party Transactions, would apply. They are essentialy treated as a change in accounting policy, as if the subsidiary were now consolidated rather than accounted for at cost or using the equity method. This usually results in the retrospective adjustment of comparative amounts using the same amounts for the subsidiary that would have been reported in the consolidated financial statements (i.e., taking into account the purchase price allocation). Because no section of ASPE is clearly applicable, the financial statement disclosures are not always the same and are not always consistent with those required by paragraphs 1506.35(c) and 1506.35(d).
  - Sometimes, these types of mergers are considered related party transactions, and paragraph 3840.44(b) is applied or partially applied. Depending on the subparagraph chosen, the transaction will be reported prospectively or retrospectively. The members expect that, as is currently the case, sometimes the amounts used will be those on the enterprise's balance sheet (i.e., not taking into account the price paid and therefore

excluding goodwill unless revalued per Section 1625, Comprehensive revaluation of assets and liabilities) and sometimes the amounts used will be those that would have been reported in the consolidated financial statements (i.e., taking into account the purchase price allocation and excluding the subsidiary's retained earnings before the parent company acquired control over the subsidiary).

  - In the decision tree in the Accounting Standards for Private Enterprises (ASPE) Briefing - AMALGAMATIONS OF WHOLLY-OWNED ENTERPRISES, published by CPA Canada and **widely used in practice**, paragraph 3840.44(b) is applied in examples 1 and 2 of an amalgamation between a parent company and its subsidiary. In Example 2, where a subsidiary is acquired from a non-related party and then amalgamated with the parent company, the amounts used are those that would have been reported in the consolidated financial statements.

- Confusion and difficulties: The lack of clear guidance causes confusion and complicates the work of many stakeholders, including:
  - Preparers of financial statements
  - Practitioners
  - Lenders and other users of financial statements
  - CPAs who create and deliver training tools and activities (model financial statements, application guidance, courses, etc.)
  - Members of the Order's staff, including inspectors and those who respond to technical reference requests from CPAs and the public
- Costs: The lack of clear guidance generates significant costs and wastes valuable stakeholder time in an era of staff shortages.

SPECIFIC AcSB QUESTIONS

***Question 1:** The AcSB proposes options in paragraph 3840.44(b) to allow enterprises to account for the combined enterprise either as a new entity or as a continuation of one of the combining enterprises when carrying values are used to account for a combination under common control and an enterprise chooses to account for the combination prospectively from the transaction date. Do you agree with the proposal in paragraph 3840.44(b)? If not, why not and what alternatives should the Board consider?*

The members agree with the proposal. However, they encourage the AcSB to consider the following comments.

- “Enterprises” vs. “entities” and “business combination” (beginning of 3840.44 and all of paragraph 3840.44(b)):

  Currently, and as proposed by the AcSB, the words “business” and “enterprise” are used several times at the beginning of paragraph 3840.44 and in paragraph 3840.44(b), but paragraph 3840.44 applies to more than just a set of activities and assets that meet the definition of an enterprise in paragraph 3840.03(j).

  In addition, at the beginning of paragraph 3840.44, the AcSB proposes to replace “a business combination transferred between two enterprises under common control” with “a business combination under common control,” even though the transactions covered by paragraph 3840.44 do not meet the definition of a business combination in paragraph 1582.03(e). In particular, according to the definition of a business combination in paragraph 1582.03(e), an acquirer must obtain control of a business, whereas subparagraph 3840.44(a)(ii) only requires the change in the ownership interests to be substantive (unrelated parties must have acquired or transferred at least 20% of the total ownership interests under paragraph 3840.35).

  The members recognize that it is difficult to find a simple and perfect solution to these issues. As a compromise for the purposes of this narrow-scope amendment exposure draft, the members suggest writing:

  - “**a combination between entities or businesses under common control**” at the beginning of paragraph 3840.44, which is the same wording as in paragraph 1582.02(b), which refers to 3840.44(b).
  - “**entities or businesses**” throughout paragraph 3840.44(b).

  One member suggested that the phrase “combination between entities or businesses” be defined for the purposes of Section 3840.

Some members suggested using language that excludes the word "combination," such as "grouping between entities or businesses under common control" or "conglomeration between entities or businesses under common control." The members consider that this wording is worthwhile if its meaning in French is acceptable, noting that care should be taken to use it wherever it should be used, including in paragraph 1582.02(b), at the beginning of paragraph 3840.44, and throughout paragraph 3840.44(b).

One member suggested using the phrase "reorganization between entities or businesses under common control," which would need to be defined to be properly understood.

The members generally support changing the wording used at the beginning of paragraph 3840.44, but are concerned that this change will have unintended consequences, including causing further confusion about the accounting treatment for a merger between a parent and its subsidiary, as discussed earlier in the GENERAL COMMENTS section of our response.

- "Combined assets and liabilities" and "historical carrying amount" (3840.44 (b)):

  Some members are concerned that the word "combined" will create confusion, since that word is generally used in the context of combined financial statements which, according to paragraph 1601.05, follow rules similar to those for preparing consolidated financial statements. Under paragraph 3840.44(b), the carrying amount from the balance sheet of the transferred business must be used. This amount may be different from the carrying amount that would have been reported in consolidated financial statements.

  The members also believe that it is unclear what "historical carrying amount" means in the context of this paragraph, especially since the definition of carrying amount in paragraph 3840.03(a) refers to the amount of an item transferred in the accounts of the transferor. The AcSB proposes removing any reference to the acquirer and the transferor in paragraph 3840.44(b).

  The members propose writing:

  > "(b) [...] the combined **entity or business** recognizes **the assets and liabilities of the combining entities or businesses at the amounts that were reported in their respective balance sheets immediately before the combination** and [...] For each transaction, the financial statements of the combined **entity or business** shall present the earnings, assets and liabilities of **the combining entities or businesses** [...]."

- Add an option as subparagraph 3840.44(b)(iv):

  Some members suggest amending paragraph 3840.44(b) to give the option of presenting the earnings, assets and liabilities of the combining entities or businesses for the entire period in which the combination occurs, but not for prior periods.

  Presenting the transaction totals of the two entities for the 12 months of the current fiscal year in the statement would meet the needs of certain financial statement users, such as lenders, in cases where the combination occurs at a date other than the beginning of the combining entities' fiscal year. It would also minimize costs that are sometimes deemed unnecessary in connection with the presentation of prior periods required by subparagraph 3840.44(b)(iii). This addition would make it possible to avoid a qualification of the auditor's report or the practitioner's review engagement report when such financial statements are prepared.

- Add an example:

  The members suggest adding the following example as paragraph 3840.44A to clarify and illustrate the requirements of the options allowed under paragraph 3840.44(b). This example is based on Example 4 in the Accounting Standards for Private Enterprises (ASPE) Briefing - AMALGAMATIONS OF WHOLLY-OWNED ENTERPRISES published by CPA Canada.

  > "3840.44A For example, Corporation XYZ acquired all of the shares of Subsidiary A and Subsidiary B in 20X5. XYZ merged Subsidiary A and Subsidiary B on May 31, 20X8. The combined entity is called AB. The reporting date for all the entities is December 31. AB's financial statements for the year ended December 31, 20X8, can be prepared in one of the following ways:
  >
  > - 3840.44(b)(i): No amount is presented in AB's financial statements for the year ended December 31, 20X7. No retained earnings are presented in the retained earnings statement at January 1, 20X8. The amounts for the assets, liabilities and retained earnings of Subsidiary A and Subsidiary B reported on their respective balance sheets at May 31, 20X8, are presented as an adjustment in AB's retained earnings statement on June 1, 20X8 (including the net earnings of Subsidiary A and Subsidiary B from January 1, 20X8, to May 31, 20X8). AB's income statement for 20X8 shows seven months of results, i.e., from June 1, 20X8, to December 31, 20X8.
  > - 3840.44(b)(ii): The amounts in AB's financial statements for the year ended December 31, 20X7, and up to May 31, 20X8, can be those of either Subsidiary A or Subsidiary B. The amounts for the assets, liabilities and retained earnings of

the other subsidiary reported on its balance sheet at May 31, 20X8, are presented as an adjustment in AB's retained earnings statement on June 1, 20X8, (including the other subsidiary's net earnings from January 1, 20X8, to May 31, 20X8). AB's income statement for 20X8 shows 12 months of results and excludes those of the other subsidiary from January 1, 20X8, to May 31, 20X8.

- 3840.44(b)(iii): The amounts in AB's financial statements for the year ended December 31, 20X7 are those that were reported in Subsidiary A and Subsidiary B's respective financial statements, including the balance of their retained earnings at January 1, 20X7, which is presented as the opening balance of retained earnings at that date. AB's income statement for 20X8 shows 12 months of results, including those of Subsidiary A and Subsidiary B from January 1, 20X8, to May 31, 20X8.
- 3840.44(b)(iv): No amount is presented in AB's financial statements for the year ended December 31, 20X7. The amounts for the retained earnings of Subsidiary A and Subsidiary B reported in their respective balance sheets at December 31, 20X7, are presented as the opening balance in AB's retained earnings statement on January 1, 20X8. AB's income statement for 20X8 shows 12 months of results, i.e., from January 1, 20X8, to December 31, 20X8.

Under neither option should push-down accounting or adjustments be applied to Subsidiary A or Subsidiary B's accounts to reflect XYZ's subsidiary purchase price. However, those adjustments are required if XYZ prepares consolidated financial statements.

Regardless of the option chosen, the amounts in AB's balance sheet at December 31, 20X8, will be the same, including the balance of retained earnings.

Regardless of the option chosen, AB's retained earnings at December 31, 20X8, include the retained earnings of Subsidiary A and Subsidiary B before their acquisition by XYZ."

- Disclosures

Chosen method

The members propose amending paragraph 3840.51(h) to require disclosure of the method chosen under paragraph 3840.44(b) to present the earnings, assets and liabilities of the combining entities or businesses for each transaction involving the combination between entities or businesses under common control when the criteria in paragraph 3840.44(a) are not met.

According to paragraphs 3840.51(c) and 3840.58

The members would like clarification on the disclosure requirements for a combination between entities or businesses under common control to satisfy the requirement in paragraphs 3840.51(c) and 3840.58 to disclose the amounts for which the transactions were recognized, for each method of recognizing such a transaction under paragraph 3840.44(b).

The members believe that the simplest way to do this is to follow the example suggested in the previous bullet point (3840.44A) and add the information to be disclosed.

Question 2: *The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2026, with earlier application permitted. The Board also proposes that the amendments be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.*

a. *Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2026, with earlier application permitted? If not, why not?*

   The members agree with the proposal.

b. *Do you agree that the proposed amendments should be applied prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied? If not, why not?*

   The members agree with the proposal.

OTHER COMMENTS

Paragraph 3840.07A on the unamended text of Section 3840

Paragraph 3840.07A was added a few years ago. It requires the term “related party transaction” and the references to transferred items made throughout Section 3840 to be read as referring to non-financial items transferred in a related party transaction, since financial instruments transferred in a related party transaction must be measured in accordance with Section 3856.

The members would like to reiterate their previous request that the AcSB remove paragraph 3840.07A and properly amend the entire text of Section 3840. According to the members, many users of Section 3840 forget about that paragraph when applying the section. Users also often read and apply certain parts of the section without reading and considering paragraph 3840.07A. This practice increases the risk of error and makes it more difficult to understand and apply Section 3840. Another option, although not preferable, would be to add an asterisk wherever the term “related party transaction” is used and wherever “transferred items” should be interpreted as referring to non-financial items.