

# **Améliorations visant le traitement comptable des regroupements d'entreprises sous contrôle commun**

## **Réponses à l'exposé-sondage**

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**Février 2023**

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January 18, 2023

**SENT ELECTRONICALLY**

Katharine Christopoulos, CPA, CA  
Director, Accounting Standards  
Accounting Standards Board  
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**Re: Improvements to Accounting for Common Control Combinations Exposure Draft**

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 positioned well to provide feedback on this exposure draft ("ED").

We have reviewed the ED and have provided our comments below. We support the AcSB's efforts to provide clarity on how to account for common control combinations through the proposed clarifying amendments to ASPE 3840 *Related Party Transactions* ("ASPE 3840") and consequential amendments to ASPE 1582 *Business Combinations* ("ASPE 1582") and ASPE 3856 *Financial Instruments* ("ASPE 3856"). While we have noted a few areas for further consideration, we generally agree with the proposed amendments. Our explanations are included below.

**Question 1: The AcSB proposes removing the reference to "exchange amount" in paragraph 3840.44(a) so that business combinations under common control meeting specified criteria would be subject to the guidance in Section 1582 *Business Combinations*. Do you agree with the proposal to remove the reference to the exchange amount in paragraph 3840.44(a)? (See proposed paragraph 3840.44(a) and the consequential amendments.) If not, why not and what alternatives should the Board consider?**

We agree with the proposal to remove the reference to the exchange amount in ASPE 3840.44(a) so that business combinations under common control meeting specified criteria would only be subject to the guidance in ASPE 1582. Criteria for measurement of a business combination is already contained in ASPE 1582. Where a business combination between entities under common control meets the requirement to be accounted for in accordance with ASPE 1582, the current inclusion of reference to

the exchange amount in ASPE 3840.44(a) can introduce confusion as to which standard (APSE 3840 vs ASPE 1582) is applied in measuring certain aspects of the combination. Removal of references to the exchange amount from ASPE 3840 in this paragraph will eliminate such confusion, clarifying that all aspects of the combination are accounted for under ASPE 1582.

**Question 2: The AcSB proposes an option in paragraph 3840.44(b) either to retrospectively restate all prior periods when carrying values are used to account for a combination or to prospectively account for the transaction. The Board also proposes that enterprises only restate comparative information for the years during which the combining entities were under common control.**

- a) Do you agree with the proposal in paragraph 3840.44(b) either to retrospectively restate all prior periods or to prospectively account for these combinations? If not, why not and what alternatives should the Board consider?**

As reasonable arguments have been put forth supporting each method, we agree that providing the option to either retrospectively restate all prior periods or to prospectively account for common control combinations is appropriate as it provides added flexibility to existing practice.

Although it is our view that restating the prior periods allows for better comparability of the information of operations which have always been under the same control, we acknowledge that in some cases, it is onerous to retrospectively restate all prior periods and this extra effort and cost can be challenging for some private entities. Further entities are required to prepare financial information for tax filings based on a point in time transaction and some users who view this as a point in time transaction, may better understand the financial information presented if the transaction is recognized from a point in time.

- b) Do you agree with the proposal in paragraph 3840.44(b) that enterprises only restate comparative information for the years during which the combining entities were under common control? If not, why not and what alternatives should the Board consider?**

We agree with the proposal to only restate comparative information for the periods during which the combining entities were under common control. The arguments for restating comparative periods are based on the lack of change of control in the transaction. Therefore, we agree that such restatement should only cover the period of time the entities were under common control.

**Question 3: The AcSB heard from its Private Enterprise Advisory Committee that additional guidance regarding business combinations between related entities that are not under common control and defining common control may be helpful in addressing application challenges. The Board recognizes including these issues may require a larger project that could delay addressing high-priority items. Therefore, the Board intends to continue research on other issues in Section 3840 and will consider some or all these in subsequent proposals.**

- a) Do you think that additional guidance regarding business combinations between related companies that are not under common control is needed to address application challenges? Why or why not?**

We believe that additional guidance regarding business combinations between related companies that are not under common control will be useful and is needed to address application challenges. However, we agree with the decision to not delay the publication of the current proposed standard.

We note that the related party transactions standard does not scope out business combinations and the business combination standard does not scope out related party transactions and therefore there may be confusion on which standard to apply for business combinations between related companies that are not under common control. Therefore, we view this as a potential gap in the guidance that the AcSB should consider in a future project.

**b) Are there any other issues regarding related party combinations in Section 3840 that you think the AcSB needs to address in subsequent proposals and why?**

Additional guidance is needed to define when common control exists. While the guidance in ASPE 1591 allows for assessment of whether a private enterprise controls another entity, there is currently no definition in ASPE of when two enterprises are under common control. This could result in inconsistency in practice as to when the amended guidance in ASPE 3840 applies. For example, control of two entities by a single controlling party in comparison with control of two entities by a group of common (and potentially related) shareholders.

**Question 4: The AcSB proposes to amend Section 3840 to require financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control to be measured using the principles in paragraph 3840.44. Do you agree with the proposal? If not, why not?**

We agree with the clarifying amendment to ASPE 3840 to require financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control to be measured using the principles in ASPE 3840.44. It would introduce confusion if financial assets and liabilities were to be measured under the guidance of ASPE 3856 while other assets and liabilities of the same combination were accounted for under ASPE 3840. We believe applying the measurement guidance of ASPE 3840 to all assets and liabilities acquired and assumed in a common control combination best represents the economic substance of the transaction.

**Question 5: The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2025, 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, 2025, 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, 2025, with earlier application permitted. This provides adequate time for preparation for application of these clarifying amendments. As these amendments provide

clarification to guidance which currently has issues in application, we agree with permitting early application.

- 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 to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied to allow for ease of application.

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**

A handwritten signature in blue ink that reads "MacKenzie".

Jody MacKenzie, CPA, CA  
Director, Assurance Professional Standards

Montréal, le 23 janvier 2023

Katharine Christopoulos, CPA, CA  
Directrice, 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 « Améliorations visant le 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

Les membres ont soulevé de nombreux questionnements quant à l'application du paragraphe 3840.44, notamment sur la question de savoir quelles opérations sont visées par ce paragraphe.

Le paragraphe 3840.44 précise que « sauf exception précisée à l'alinéa .26A a) du chapitre 1591, FILIALES, la cession d'une entreprise entre deux entreprises sous contrôle commun est comptabilisée comme suit : (...) ».

Les membres ont notamment soulevé les deux préoccupations suivantes visant le champ d'application de ce paragraphe :

i) Définition d'une « entreprise » :

Les membres souhaiteraient qu'une définition ou que des indications soient ajoutées pour clarifier dans quelles circonstances une opération entre deux sociétés sous contrôle commun devrait être considérée comme la cession d'une entreprise (conformément au paragraphe 3840.44) plutôt que comme une opération portant sur la cession d'actifs et de passifs devant être comptabilisés conformément aux autres exigences du chapitre 3840 (ou du chapitre 3856, « Instruments financiers », dans le cas des actifs et passifs financiers visés).

ii) « Cession d'une entreprise entre deux entreprises sous contrôle commun » :

Les membres ont soulevé les exemples de deux situations parmi les plus courantes de regroupements d'entreprises entre apparentés et se sont questionnés à savoir si ces opérations représentent « la cession d'une entreprise entre deux entreprises sous contrôle commun » :

- *Fusion horizontale entre deux sociétés détenues en propriété exclusive par la même société mère* : Dans une telle situation où il n'y a aucun cédant ni aucun acquéreur (les deux sociétés étant précédemment détenues par le même actionnaire), y a-t-il cession d'une entreprise?
- *Fusion verticale entre une société mère et sa filiale* : Est-ce qu'une société mère et sa filiale répondent toujours à la définition de « sociétés sous contrôle commun » aux fins de l'application du paragraphe 3840.44? Et ce même si la société mère est, par exemple, un partenariat? De plus, comme mentionné précédemment (situation où il n'y a aucun cédant ni aucun acquéreur), y a-t-il cession d'une entreprise?

Les membres sont d'avis que ces deux exemples devraient être visés par le paragraphe 3840.44, mais que l'expression « cession d'entreprise » utilisée dans ce paragraphe entraîne de la confusion et est susceptible de mener à une conclusion différente.

## QUESTIONS SPÉCIFIQUES DU CNC

### Traitement comptable des regroupements d'entreprises sous contrôle commun

*Question 1 : Le CNC propose de supprimer la mention de « valeur d'échange » dans l'alinéa 3840.44 a) de sorte que les regroupements d'entreprises sous contrôle commun qui répondent à certains critères seraient inclus dans le champ d'application du chapitre 1582. Appuyez-vous cette proposition? (Voir l'alinéa 3840.44 a) proposé et les modifications corrélatives.) Dans la négative, pourquoi, et quelles solutions le CNC devrait-il envisager?*

Oui, les membres sont généralement favorables au retrait de la mention de « valeur d'échange » à cet alinéa.

Certains membres ont soulevé des préoccupations concernant l'application du chapitre 1582 aux opérations visées par l'alinéa 3840.44 a), considérant que le chapitre 1582 s'applique à des opérations où un acquéreur obtient le contrôle d'une entreprise (1582.03 e)) et que les opérations visées par cet alinéa du chapitre 3840 sont réalisées entre des entreprises sous contrôle commun et n'entraînent conséquemment pas l'acquisition du contrôle de l'entreprise cédée.

*Question 2 : Le CNC propose d'ajouter un choix à l'alinéa 3840.44 b) entre le retraitement rétrospectif des chiffres de toutes les périodes antérieures lorsque les valeurs comptables sont utilisées pour comptabiliser le regroupement, d'une part, et la comptabilisation prospective de l'opération, d'autre part. Il propose également que le retraitement des informations comparatives ne porte que sur les exercices au cours desquels les entreprises se regroupant étaient sous contrôle commun.*

Au-delà des préoccupations soulevées dans la section « Commentaires généraux » précédemment portant sur la portée et le champ d'application du paragraphe 3840.44, les membres ont également soulevé des questionnements spécifiques portant sur l'application de l'alinéa 3840.44 b). Ce paragraphe prévoit que « (...) l'acquéreur comptabilise les actifs acquis et les passifs repris à leur valeur comptable figurant dans le bilan de l'entreprise cédée (...) ». La terminologie utilisée dans ce paragraphe n'est pas cohérente avec la définition du terme « valeur comptable » au paragraphe 3840.03 a) qui précise que « La valeur comptable est la valeur d'un élément transféré (...) inscrits dans les comptes du cédant ». (Soulignements ajoutés.)

Les membres souhaitent avoir davantage de précisions sur la valeur comptable à utiliser selon l'alinéa 3840.44 b) notamment dans les situations suivantes :

- *Fusion verticale entre une société mère et sa filiale* : la valeur comptable des actifs et des passifs figurant dans le bilan d'une filiale qui a été acquise (et non créée par la société mère) ne correspond généralement pas à la valeur comptable des actifs et des passifs de la filiale qui figure dans les états financiers consolidés de la société mère (ou qui y figurerait si des états financiers consolidés étaient préparés), à moins qu'ils aient fait l'objet d'une réévaluation selon le chapitre 1625, « Réévaluation intégrale des actifs et des passifs ».
  - *Fusion horizontale entre deux sociétés détenues en propriété exclusive par la même société mère* : la valeur comptable des actifs et des passifs figurant dans le bilan des filiales qui ont été acquises (et non créées par la société mère) ne correspond généralement pas à la valeur comptable des actifs et des passifs des filiales qui figure dans les états financiers consolidés de la société mère (ou qui y figurerait si des états financiers consolidés étaient préparés), à moins qu'ils aient fait l'objet d'une réévaluation selon le chapitre 1625.
- a) *Êtes-vous en faveur de la proposition d'ajouter, à l'alinéa 3840.44 b), un choix entre le retraitement rétrospectif des chiffres de toutes les périodes antérieures et la comptabilisation prospective du regroupement? Dans la négative, pourquoi, et quelles solutions le CNC devrait-il envisager?*

Les membres n'ont pas tous interprété les propositions de la même façon et ont soulevé plusieurs préoccupations quant à ce choix. Les membres souhaitent donc que des précisions soient apportées aux propositions pour éviter de la diversité lors de l'application.

Les avis des membres sur la question posée sont partagés : certains sont défavorables à l'ajout d'un tel allègement avant que le CNC ait finalisé ses travaux portant sur les regroupements d'entreprises apparentées qui ne sont pas sous contrôle commun (voir question 3), certains sont favorables à l'ajout d'un tel allègement et d'autres auraient préféré une approche où l'application rétrospective serait privilégiée (avec application prospective permise dans les situations où le retraitement des informations antérieures à la date du regroupement est impraticable).

Dans l'optique où un tel allègement est maintenu par le CNC, les membres ont notamment soulevé les questionnements et les préoccupations suivantes :

- Les membres auraient souhaité consulter un exemple illustratif permettant de comprendre la portée d'un tel allègement : est-ce que le choix d'opter pour une application prospective ou rétrospective a uniquement une incidence sur le retraitement de l'état des résultats de l'exercice courant et des états financiers de l'exercice présenté aux fins de comparaison ou est-ce que ce

choix est également susceptible d'avoir une incidence sur l'établissement de la valeur comptable des actifs et passifs à comptabiliser dans le cadre de l'opération?

- Dans le contexte d'une fusion entre deux sociétés sous contrôle commun, laquelle des deux sociétés est considérée comme étant « l'entreprise acquise »? Quelles sont les informations comparatives qui doivent être présentées si l'entreprise issue du regroupement choisissait d'appliquer le sous-alinéa 3840.44 b) i) proposé? Est-ce que ce choix permet de ne présenter aucune information aux fins de comparaison?
- Des indications devraient être ajoutées concernant la comptabilisation de l'ajustement résultant du regroupement lorsque l'entreprise issue du regroupement choisit d'appliquer le sous-alinéa 3840.44 b) i), notamment dans quel compte doit être comptabilisé cet ajustement (surplus d'apport, bénéfices non répartis ou autre).
- Des précisions devraient être apportées afin de clarifier si le choix prévu à l'alinéa 3840.44 b) est un choix de méthode comptable qui doit être appliqué uniformément par l'entreprise à toutes les opérations visées ou si le choix d'une application prospective ou rétrospective peut être effectué « opération par opération ».

*b) Êtes-vous en faveur de la proposition énoncée à l'alinéa 3840.44 b) selon laquelle seules les informations comparatives des exercices au cours desquels les entreprises se regroupant étaient sous contrôle commun devraient être retraitées? Dans la négative, pourquoi, et quelles solutions le CNC devrait-il envisager?*

Oui, les membres sont généralement favorables à une précision à l'effet que l'application rétrospective ne devrait pas mener à présenter dans les états financiers de l'entreprise issue du regroupement des actifs, passifs, produits et charges d'une entreprise avant la date où celle-ci est devenue une entreprise sous contrôle commun.

Les membres auraient souhaité un exemple illustratif permettant de clarifier l'application du sous-alinéa 3840.44 b) ii) dans des situations simples de fusion horizontale et de fusion verticale comme celles mentionnées précédemment.

**Question 3 :** *Le Comité consultatif a mentionné au CNC que l'ajout d'indications sur les regroupements d'entreprises apparentées qui ne sont pas sous contrôle commun et d'une définition de ce qu'est le contrôle commun pourrait aider à résoudre les difficultés d'application. Du point de vue du CNC, un projet plus vaste pourrait être nécessaire pour traiter ces questions,*

*ce qui retarderait l'examen de celles qui sont hautement prioritaires. Par conséquent, il entend poursuivre ses recherches concernant les autres problèmes que pose le chapitre 3840 et envisagera de les résoudre, en partie ou en totalité, dans le cadre d'un projet ultérieur.*

*a) Croyez-vous que des indications supplémentaires sur les regroupements d'entreprises apparentées qui ne sont pas sous contrôle commun sont nécessaires pour résoudre les difficultés d'application? Veuillez motiver votre réponse.*

Oui, les membres sont d'avis qu'un projet plus vaste portant sur la comptabilisation des regroupements d'entreprises entre apparentés est nécessaire.

Par exemple, dans le cas de la cession d'une entreprise entre deux entreprises sous influence notable commune, aucune indication ne permet de déterminer quelle méthode de comptabilisation s'applique à une telle opération. Si les conditions énoncées au paragraphe 3840.29 sont respectées, est-ce que l'acquéreur devrait appliquer le chapitre 1582? Si les conditions de ce paragraphe ne sont pas respectées, est-ce que les actifs et passifs financiers acquis dans le cadre de cette opération doivent être comptabilisés conformément au chapitre 3856 même s'ils ont été acquis dans le cadre d'un regroupement d'entreprises entre apparentés?

*b) Selon vous, l'application du chapitre 3840 pose-t-elle d'autres problèmes en ce qui concerne les regroupements d'entreprises apparentées sur lesquels le CNC devrait se pencher dans le cadre d'un projet ultérieur? Dans l'affirmative, veuillez motiver votre réponse.*

Les principales autres préoccupations soulevées par les membres quant à l'application du chapitre 3840 en ce qui concerne les regroupements d'entreprises apparentées ont déjà été exprimées précédemment.

## **Traitement comptable des instruments financiers acquis dans le cadre d'un regroupement d'entreprises sous contrôle commun**

**Question 4 :** *Le CNC propose de modifier le chapitre 3840 afin d'exiger que les actifs financiers acquis et les passifs financiers pris en charge dans une opération de cession d'une entreprise entre deux entreprises sous contrôle commun soient évalués selon les principes du paragraphe 3840.44. Appuyez-vous cette proposition? Dans la négative, pourquoi?*

Oui, les membres sont favorables à cette proposition.

Les membres souhaitent toutefois porter à l'attention du CNC que cette proposition traite exclusivement de l'évaluation initiale de ces instruments financiers et que des précisions sont requises à l'égard des instruments financiers acquis ou pris en charge dans le cadre d'une opération visée par l'alinéa 3840.44 b) (qui seraient initialement évalués à la valeur comptable figurant dans le bilan de l'entreprise cédée, selon les propositions) pour permettre de déterminer la méthode à utiliser pour leur évaluation ultérieure conformément au paragraphe 3856.11. Par exemple, une précision pourrait être ajoutée au chapitre 3856 indiquant que l'évaluation ultérieure de ces instruments financiers sera en fonction de la méthode utilisée pour les évaluer initialement avant la cession entre entreprises sous contrôle commun.

## Dispositions transitoires

*Question 5 : Le CNC propose que les modifications s'appliquent pour les exercices ouverts à compter du 1<sup>er</sup> janvier 2025 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 1<sup>er</sup> janvier 2025 et que l'application anticipée devrait être permise? Dans la négative, pourquoi?*

Oui, les membres sont favorables à 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?*

Bien que les membres soient favorables à cette proposition, certains d'entre eux souhaitent que le CNC offre le choix entre une application prospective ou rétrospective des modifications.

## AUTRES COMMENTAIRES

### Informations à fournir

Les membres souhaitent que des précisions soient apportées sur les informations à fournir afférentes à un regroupement d'entreprises sous contrôle commun, plus spécifiquement pour répondre à l'exigence du paragraphe 3840.58 de divulguer « les montants pour lesquels elles ont été

comptabilisées » dans un contexte où l'entreprise issue du regroupement opte pour une application rétrospective conformément au sous-alinéa 3840.44 b) ii) proposé. L'entreprise issue du regroupement devrait-elle fournir les montants à la date à laquelle le regroupement a eu lieu? Devrait-elle plutôt fournir les montants qui ont été comptabilisés en ajustement des états financiers de l'exercice antérieur présenté aux fins de comparaison?

#### Texte non modifié du chapitre 3840

Le paragraphe 3840.07A a récemment été ajouté. 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 souhaitent 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 n'ont pas remarqué l'ajout récent de ce paragraphe ou l'oublient lorsqu'ils appliquent le chapitre. De plus, il arrive fréquemment que des passages spécifiques du chapitre soient relus et appliqués sans que l'entièreté du chapitre soit relue, notamment le paragraphe 3840.07A. 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.

Montreal, January 23, 2023

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

Dear Ms. Christopoulos:

You will 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, regarding the exposure draft entitled “Improvements to 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 Ordre des comptables professionnels agréés du Québec 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 specified in the disclaimer enclosed.

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 technical and sector-specific working groups of the Ordre des comptables professionnels agréés du Québec (the Order), hereinafter referred to as the “comments,” provide the opinion of working groups 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 by these boards should not be relied upon as a substitute for engagements entrusted to professionals. 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.

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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 received from working groups in the opinions they express or the positions they take.

## TERMS OF REFERENCE OF THE ORDER'S 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, industry and government, as well as those of other persons working in related areas of expertise.

For each exposure draft or other document reviewed, the technical 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

Members raised a number of questions regarding the application of paragraph 3840.44, especially regarding which transactions are covered by said paragraph.

Paragraph 3840.44 specifies that “Except as specified in SUBSIDIARIES, paragraph 1591.26A(a), a business transferred between two enterprises under common control is accounted for as follows: (...)”

Members raised the following two concerns regarding the scope of the paragraph:

i) Definition of a “business”:

Members would like a definition or guidance to be added to clarify the circumstances in which a transaction between two enterprises under common control should be considered to be the transfer of a business (in accordance with paragraph 3840.44) rather than a transaction regarding the transfer of assets and liabilities that should be accounted for in accordance with the other requirements of Section 3840 (or of Section 3856, “Financial Instruments,” in the case of financial assets and liabilities).

ii) “Business transferred between two enterprises under common control”:

Members brought up examples of two of the most common situations of related party business combinations and asked whether these transactions constituted “business[es] transferred between two enterprises under common control”:

- *Horizontal amalgamation of two companies wholly owned by the same parent:* Does such a situation, in which there is no transferor or acquirer (as the two companies were previously owned by the same shareholder), qualify as the transfer of a business?
- *Vertical amalgamation of a parent and its subsidiary:* Do a parent and its subsidiary always meet the definition of “enterprises under common control” for the purposes of applying paragraph 3840.44? Is this the case even when the parent is a joint arrangement, for example? In addition, as mentioned previously (situation in which there is no transferor or acquirer), does this qualify as the transfer of a business?

The members are of the opinion that these two examples should be covered by paragraph 3840.44, but that the expression used in this paragraph (“business transferred”) is confusing and may lead to a different conclusion.

## THE ACSB'S SPECIFIC QUESTIONS

### Accounting for combinations under common control

**Question 1:** *The AcSB proposes removing the reference to “exchange amount” in paragraph 3840.44(a) so that business combinations under common control meeting specified criteria would be subject to the guidance in Section 1582. Do you agree with the proposal to remove the reference to the exchange amount in paragraph 3840.44(a)? (See proposed paragraph 3840.44 and the consequential amendments.) If not, why not and what alternatives should the Board consider?*

Yes, the members are generally in favour of removing the reference to “exchange amount” from this paragraph.

Certain members raised concerns about the application of Section 1582 to transactions covered by paragraph 3840.44(a), as Section 1582 applies to transactions in which an acquirer obtains control of a business (1582.03[e]), and as the transactions covered by this paragraph of Section 3840 are conducted between enterprises under common control and therefore do not entail the acquisition of control of the transferred business.

**Question 2:** *The AcSB proposes an option in paragraph 3840.44(b) either to retrospectively restate all prior periods when carrying values are used to account for a combination or to prospectively account for the transaction. The Board also proposes that enterprises only restate comparative information for the years during which the combining entities were under common control.*

Beyond the concerns raised in the “General Comments” section above regarding the scope of paragraph 3840.44, the members also raised specific questions on the application of paragraph 3840.44(b). This paragraph states that “(...) the acquiring enterprise records the acquired assets and liabilities at their carrying amount in the balance sheet of the transferred business.” The wording used in the paragraph is inconsistent with the definition of “carrying amount” in paragraph 3840.03 a), which states that “(a) Carrying amount is the amount of an item transferred (...) as recorded in the accounts of the transferor” (underlining added).

The members wish to obtain more guidance on the carrying amount to use under paragraph 3840.44(b) in the following situations:

- *Vertical amalgamation of a parent and its subsidiary:* The carrying amount of assets and liabilities in the balance sheet of a subsidiary that was acquired (i.e. not created by the parent) is generally not the same as the carrying amount of assets and liabilities of the subsidiary as recorded in the consolidated financial statements of the parent (or as would have been recorded if consolidated financial statements had been prepared), unless they were revalued under Section 1625, “Comprehensive revaluation of assets and liabilities.”
  - *Horizontal amalgamation of two companies wholly owned by the same parent:* The carrying amount of assets and liabilities in the balance sheet of subsidiaries that were acquired (i.e. not created by the parent) are generally not the same as the carrying amount of assets and liabilities of the subsidiaries as recorded in the consolidated financial statements of the parent (or as would have been recorded if consolidated financial statements had been prepared), unless they were revalued under Section 1625, “Comprehensive revaluation of assets and liabilities.”
- a) *Do you agree with the proposal in [paragraph 3840.44\(b\)](#) to either retrospectively restate all prior periods or to prospectively account for these combinations? If not, why not and what alternatives should the Board consider?*

All members did not interpret the proposals in the same way, and they raised several concerns about this option. The members therefore wish for the proposals to be clarified to avoid diversity in application.

The members’ opinions on the question are mixed: some members are against the addition of this relief before the AcSB has finalized its work on business combinations between related entities that are not under common control (see question 3), while others are in favour of adding the relief. Others still would prefer an approach in which retrospective application is favoured (with prospective application allowed when the restatement of information prior to the date of combination is impracticable).

Should the AcSB maintain the relief, the members raised the following questions and concerns:

- The members would have liked to be able to consult an illustrative example that explains the scope of the relief: would the choice to opt for prospective or retrospective application only impact the restatement of the current year income statement and of the financial statements presented for comparative purposes, or could the choice also impact

the determination of the carrying amount of assets and liabilities to be accounted for as part of the transaction?

- In the event of the amalgamation of two companies under common control, which company would be considered the “acquiree”? What comparatives must be presented if the combined enterprise chooses to apply the proposed paragraph 3840.44(b)(i)? Does this option allow for no information to be presented for comparative purposes?
- Guidance should be added regarding the accounting for the adjustment that results from the combination when the combined enterprise chooses to apply paragraph 3840.44(b)(i), in particular, the account in which the adjustment should be accounted for (contributed surplus, retained earnings, or other).
- Clarifications should be added on whether the option in paragraph 3840.44(b) is a choice of accounting policy that must be applied consistently by the enterprise to all the covered transactions, or whether the choice between prospective or retrospective application can be made “transaction by transaction.”

*b) Do you agree with the proposal in paragraph 3840.44(b) that enterprises only restate comparative information for the years during which the combining entities were under common control? If not, why not and what alternatives should the Board consider?*

Yes. The members are generally in favour of a clarification that retrospective application should not result in the assets, liabilities, income and expenses of an enterprise prior to the date on which it became an enterprise under common control being presented in the financial statements of the combined enterprise.

The members would have liked an illustrative example clarifying the application of paragraph 3840.44(b)(ii) in simple cases of horizontal amalgamation and vertical amalgamation like those mentioned previously.

***Question 3: The AcSB heard from its Private Enterprise Advisory Committee that additional guidance regarding business combinations between related entities that are not under common control and defining common control may be helpful in addressing application challenges. The Board recognizes including these issues may require a larger project that could delay addressing high-priority items. Therefore, the Board intends to continue research on other issues in Section 3840 and will consider some or all these in subsequent proposals.***

*a) Do you think that additional guidance regarding business combinations between related companies that are not under common control is needed to address application challenges? Why or why not?*

Yes. The members are of the opinion that a larger project on accounting for related party business combinations is necessary.

For example, if a business is transferred between two enterprises under common significant influence, there is no guidance to help determining which method of accounting applies to such a transaction. If the conditions set out in paragraph 3840.29 are met, should the acquirer apply Section 1582? If the conditions in this paragraph are not met, should the financial assets and liabilities acquired in the transaction be accounted for in accordance with Section 3856, even if they were acquired within a business combination between related parties?

*b) Are there any other issues regarding related party combinations in Section 3840 that you think the AcSB needs to address in subsequent proposals and why?*

The other main concerns raised by members regarding the application of Section 3840 as it pertains to related party combinations have already been expressed previously.

## **Accounting for financial instruments acquired in a combination under common control**

***Question 4:** The AcSB proposes to amend Section 3840 to require financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control to be measured using the principles in paragraph 3840.44. Do you agree with the proposal? If not, why not?*

Yes, the members are in favour of this proposal.

However, the members wish to draw the AcSB's attention to the fact that this proposal only covers the initial measurement of these financial instruments, and that clarifications are required with regard to financial instruments acquired or assumed in a transaction covered by paragraph 3840.44(b) (which would initially be measured at the carrying amount in the balance sheet of the transferred business, according to the proposals) to determine the method to use for their subsequent measurement under Section 3856.11. For example, a clarification could be added to Section 3856 indicating that the subsequent measurement of these financial instruments would be based on the method used to measure them initially, prior to the transfer between enterprises under common control.

## Transition

*Question 5: The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2025, 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, 2025, with earlier application permitted? If not, why not?*

Yes, the members are in favour of this 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?*

While the members are in favour of this proposal, some would like the AcSB to offer the option to choose between applying amendments prospectively or retrospectively.

## OTHER COMMENTS

### Disclosure

The members wish for clarification on the disclosure required for a business combination under common control, specifically to meet the requirement in paragraph 3840.58 to disclose the "recognized amounts of such transactions" when the combined enterprise opts for retrospective application under the proposed paragraph 3840.44(b)(ii). Should the combined enterprise disclose the amounts on the date of the combination? Or should it disclose the amounts that were recognized as an adjustment of prior-

year financial statements presented for comparative purposes?

Non-amended text in Section 3840

Paragraph 3840.07A was recently added. It requires that in Section 3840, the term “related party transaction” and references to items transferred shall be read to always refer to non-financial items transferred in a related party transaction, as financial instruments transferred in a related party transaction shall be measured in accordance with Section 3856.

Members would like the AcSB to remove paragraph 3840.07A and properly amend the entirety of the text in Section 3840. According to the members, several users of Section 3840 did not take note of the recent addition of this paragraph or forget about it when applying the section. In addition, users frequently reread and apply specific extracts of the section without rereading the entire section, including paragraph 3840.07A. This practice increases the risk of error and complicates the understanding and application of Section 3840. An alternative, which is seen as less interesting, would be to add an asterisk everywhere the term “related party transaction” is used and everywhere “items transferred” shall be interpreted to refer to non-financial items.



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January 27, 2023

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

**Subject: Invitation to Comment -Exposure Draft: Improvements 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 amendments to *Related Party Transactions*, Section 3840, and its consequential amendments to *Business Combinations*, Section 1582, and *Financial Instruments*, Section 3856. Our response was developed with input from a number of practitioners from across the country that have a deep knowledge of the application of ASPE to private enterprises.

Please find attached our comments to the specific questions raised in the Exposure Draft. If you have any questions, please contact Patrick Ho ([patho@deloitte.ca](mailto:patho@deloitte.ca)) at 604-640-4907.

Yours truly,

A handwritten signature in black ink, appearing to read "Albert Kokuryo", with a stylized flourish at the end.

Albert Kokuryo, CPA, CA  
National Professional Practice Director Audit Private  
Deloitte LLP

## Appendix

### Accounting for Combinations under Common Control

1. The AcSB proposes removing the reference to the exchange amount in paragraph 3840.44(a) so that business combinations under common control meeting specified criteria would be subject to the guidance in Section 1582. Do you agree with the proposal to remove the reference to the exchange amount in paragraph 3840.44(a)? (See proposed paragraph 3840.44(a) and the consequential amendments) If not, why not and what alternatives should the Board consider?

Yes, we agree with the proposal to remove the reference to the exchange amount in paragraph 3840.44(a) and the consequential amendments as proposed in this Exposure Draft. We agree with the Board's basis that removing the reference to the exchange amount will eliminate ambiguity around the transaction measurement as the exchange amount is not consistently synonymous for fair value. We agree that the amendment will reduce ambiguity and diversity in application.

2. The AcSB proposes an option in paragraph 3840.44(b) to either retrospectively restate all prior periods when carrying values are used to account for a combination or to account for the transaction prospectively. The Board also proposes that enterprises only restate comparative information for the years during which the combining entities were under common control.

- (a) Do you agree with the proposal in paragraph 3840.44(b) to either retrospectively restate all prior periods or to prospectively account for these combinations? 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 either retrospectively restate all prior periods when carrying values are used to account for a combination or to account for the transaction prospectively.

We first considered which option would provide more relevant information to the users of the financial statements under the principles of 1000.17, Financial statement concepts. We noted that there are a group of users who assess performance of the combined entity on a prospective basis. This group of users make decisions based on the financial position and performance of the combined entity post combination. Restating the prior period comparatives do not add to decision usefulness to this group of users.

However, we also note there are users who rely on restated comparative information to identify trends and to assess financial results over two periods. The comparative information may provide predictive value to this group of users. Furthermore, restating the prior year comparatives would provide consistency. Consistency may help prevent misinterpretation of results arising from the combination. This is in line with the principles in paragraph 1000.19-20.

Finally, we considered the benefit versus cost constraint under the principles of paragraph 1000.13. We understand that the requirement to retrospectively restate all prior periods when carrying values are used to account for a common control combination often pose a challenge and unnecessary burden for preparers. The challenges are attributable to the effort required to prepare the relevant information in relation to comparative amounts in the income statement, cash flow statement and note disclosures as the information may not be readily available. Specifically, in cases where only a division or group of assets and liabilities are acquired and assumed, versus an entire legal entity, the historical information regarding the profit and loss and cash flows associated with the division or group of assets and liabilities acquired and assumed may not be readily available. In those cases, the cost to prepare the information may outweigh the benefit especially in cases where the users assess the performance of the combined entity on a go forward basis.

Although the amendment may reduce comparability of financial statements between two different entities as well as for the same entity over two periods, we note that the policy choice will allow preparers to select the policy that will prepare the most relevant financial information for its group of users. This will also avoid situations where the cost of preparation outweighs the benefits especially in instances where it does not provide more relevant information for the users of the financial statements. Consequently, we agree with the proposal in paragraph 3840.44(b) to provide an option to either retrospectively restate all prior periods when carrying values are used to account for a combination or to account for the transaction prospectively for the years during which the combining entities were under common control.

In view of providing preparers a policy choice, we believe additional guidance and examples in the following areas would be beneficial:

- In the context of a merger between two companies under common control, guidance on determination of which of the two companies is considered to be "the acquired enterprise"; and
- Details should be added concerning the recognition of the adjustment resulting from the consolidation when the entity chooses to apply subparagraph 3840.44(b)(i), in particular in which equity account should the adjustment to net assets be recognized in.

**(b) Do you agree with the proposal that enterprises only restate comparative information for the years during which the combining entities were under common control? If not, why not and what alternatives should the Board consider? (See proposed paragraph 3840.44(b))**

We agree with the proposal that enterprises only restate comparative information for the years during which the combining entities were under common control as this will most faithfully represent the economics of the combining entities under common control.

3. **The AcSB heard from its Private Enterprise Advisory Committee that additional guidance regarding business combinations between related entities that are not under common control and defining common control may be helpful in addressing application challenges. The Board recognizes that including these issues may require a larger project that could delay addressing the items identified as high priority. Therefore, the Board intends to continue research on other issues in the Section 3840 and will consider some or all these in subsequent proposals.**

**(a) Do you think that additional guidance regarding business combinations between related companies that are not under common control is needed to address application challenges? Why or why not?**

We believe that existing guidance regarding business combinations between related entities that are not under common control and common control to be clear, and for control to be well defined in Sections 3840, Related party transactions, as well as 1591, Subsidiaries. For this reason, we do not expect ambiguity in its application and in determining if two or more entities are under common control. In our view, entities are either under common control or not under common control and the existing guidance is clear on how transactions should be applied in each instance.

However, we also note that the AcSB heard from its Private Enterprise Advisory Committee that additional guidance may be helpful, and because of these concerns, we feel it would be beneficial to preparers if the Board can provide clarity on the accounting for related party transactions in situations where there isn't common control (i.e. transactions between two entities that are under joint control or significant influence by the same parties) and if there is an expected difference in treatment. We also note that if an alternate treatment is created for certain related party transactions, it will likely be challenging to ring-fence the standard around those transactions given the diverse nature of related party relationships.

**(b) Are there any other issues regarding related party combinations in Section 3840 that you think needs to be addressed by the AcSB in subsequent proposals and why?**

We note that there are several application challenges that are not addressed within the proposed amendments to Section 3840. We believe additional guidance and examples in the following areas would be helpful to preparers of financial statements:

- Definition of an “acquired enterprise” as it is unclear if an acquisition of a division, or group of assets and liabilities, represent an acquired enterprise under 3840.33(b) and if “acquired enterprise” is equivalent to a “business transferred”; and
- Treatment of the comparative figures on the balance sheet and income statement of the disposing entity in its standalone financial statements in instances where the selling entity disposes of a division or group of assets and liabilities to an acquiring entity that is under common control and the acquiring entity restates its comparative figures under the requirements of paragraph 3840.44(b).

Additional guidance or illustrative examples will ultimately improve the quality and consistency of the financial statements prepared.

## **Accounting for Financial Instruments acquired in a Combination under Common Control**

**4. The AcSB proposes to amend Section 3840 to require financial instruments acquired in a transaction when a business is transferred between two enterprises under common control will be measured using the principles in paragraph 3840.44. Do you agree with the proposal? If not, why not?**

We agree with the proposal to amend Section 3840 to require both financial and non-financial assets and liabilities acquired and assumed in a transaction when a business is transferred between two enterprises under common control to be measured using the principles in paragraph 3840.44.

It is our understanding that one of the principal concepts in the improvements to accounting for common control combinations for Section 3840, is to simplify the accounting for assets acquired and liabilities assumed in common control transactions where there is no commercial substance to avoid unnecessary remeasurement of assets and liabilities at the time of transfer. Paragraph 3840.07A as currently written, is contrary to this overall concept. Under the requirements of paragraph 3840.07A, an entity is required to remeasure financial assets acquired and liabilities assumed under the requirements of Section 3856 even if the transaction is conducted with an entity under common control. This also results in a divergence in measurement approach at initial recognition between non-financial and financial assets and liabilities in common control transactions. We believe the proposed amendment best reflects the substance of a common control transaction and its economics.

## **Transition**

**5. The AcSB proposes that the amendments should be effective for fiscal years beginning on or after January 1, 2025. 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 apply for annual periods beginning on or after January 1, 2025 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, 2025, with earlier application permitted.

- (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 prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied



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January 30, 2023

**Re: AcSB Exposure Draft - Improvements to Accounting for Common Control Combinations**

Dear Ms. Christopoulos,

We have read the above-mentioned Exposure Draft that was issued in November 2022 and are pleased to have the opportunity to provide responses to your specific questions as outlined below.

1. *Do you agree with the proposal to remove the reference to the exchange amount in paragraph 3840.44(a)? If not, why not and what alternatives should the Board consider?*

We agree with the proposal to remove the reference to the exchange amount in paragraph 3840.44(a) and replace it with the guidance in subparagraphs .44(a)(i)-(iii). We appreciate the Board proposing amendments to provide clarity to an area that has been confusing and resulted in diversity in practice in the past. However, we have identified a potential issue with the interaction of paragraph 3840.44 and Section 1582 that we believe may still lead to confusion when users attempt to apply the proposed guidance in practice.

Paragraph 3840.44 refers to a “business” being transferred. Paragraph 3840.44(a) states that the “transaction” is accounted for in accordance with Section 1582 when the three criteria in subparagraphs (i) through (iii) are met. While we agree that in this situation the guidance in Section 1582 should be followed, we note that paragraph 1582.02 states that “This Section applies to a transaction or other event that meets the definition of a “business combination” ...

We understand the Board is proposing to amend subparagraph 1582.02(b) to only scope out combinations between entities or businesses under common control accounted for in accordance with paragraph 3840.44(b). However, we believe there is still an issue with the first sentence in paragraph 1582.02 which refers to a “business combination”. Section 1582 paragraph .03(e) defines a business combination as

“...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” are also business combinations as that term is used in this Section.”

The issue we see, is that in order to be in the scope of Section 1582 a business combination needs to have occurred. In order for there to have been a business combination, there needs to have been a change in control. However, to meet the criteria in paragraph 3840.44(a) there does not have to be a change in control. There only has to be a substantive change in ownership interests (3840.44(a)(ii)). Paragraphs 3840.31-.38 expand on what is considered a substantive change. While a substantive change may be a change in control (3840.33(a)), it may also be when there has been at least a 20% change in the total equity ownership (3840.33, .35-.36). As a result, we could see a situation where an entity has a transaction that meets the requirements of paragraph 3840.44(a), goes to Section 1582 to account for that transaction, but believes they are scoped out of 1582 due to the wording in paragraph 1582.02 (as well as the requirements of paragraph 1582.04) and then does not know what guidance to apply to account for the transaction.

While we do not believe the definition of a business combination needs to change in Section 1582, we would encourage the Board to clarify that a transaction that meets the criteria in paragraph 3840.44(a) does not need to meet the definition of a business combination in order to apply the guidance in Section 1582. Paragraph .23 of the Basis of Conclusions of this Exposure Draft explains that ...“the Board proposed to clarify that combinations between entities or businesses under common control accounted for in accordance with paragraph 3840.44(a) would apply all aspects of Section 1582”. However, as noted above we do not think this is actually clear based on the current wording of the proposed changes to Section 3840 and Section 1582.

## 2. *Restatement:*

- a. *Do you agree with the proposal in paragraph 3840.44(b) either to retrospectively restate all prior periods or to prospectively account for these combinations? If not, why not and what alternatives should the Board consider?*

We agree with the proposal in paragraph 3840.44(b) to either retrospectively restate all prior periods or to prospectively account for these combinations. We believe this option will reduce the reporting burden for entities, while still allowing user needs to be met.

- b. *Do you agree with the proposal in paragraph 3840.44(b) that enterprises only restate comparative information for the years during which the combining entities were under common control? If not, why not and what alternatives should the Board consider?*

We do not agree with the proposal in paragraph 3840.44(b) that enterprises only restate comparative information for the years during which the combining entities were under common control. This may be simple to do if the entities have always been under common control since inception. However, that is not always the case and depending on the point in time when the entities became commonly controlled the comparative information could be complicated to

determine (e.g., if the entities became commonly controlled in the last two years the information would be easier to determine than if they became commonly controlled 10 years ago).

Also, it is unclear how an entity would go about making this adjustment, since any previous business combinations would have been accounted for at the acquirer level, not at the subsidiary level (i.e., the entity that is under common control). As a result, unless push down accounting had been used, the subsidiary's financial statements would still reflect its earnings, assets and liabilities since its inception.

While we acknowledge the wording of the proposals may be considered more technically correct, we do not believe the benefits of the proposal outweigh the costs. We would encourage the AcSB to retain the broader current wording in paragraph 3840.44(b) that "the combined enterprise reflect the earnings, assets and liabilities of the acquired enterprise for the entire period in which the transfer occurred and for all prior periods."

3. *Additional guidance:*

- a. *Do you think that additional guidance regarding business combinations between related companies that are not under common control is needed to address application challenges? Why or why not?*

We believe additional guidance regarding business combinations between related companies that are not under common control is needed to address application challenges, as it is not always clear how to account for such transactions under the current guidance in ASPE. We would encourage the Board to undertake a research project on this issue.

- b. *Are there any other issues regarding related party combinations in Section 3840 that you think the AcSB needs to address in subsequent proposals and why?*

We have not identified additional issues at this time.

4. *The AcSB proposes to amend Section 3840 to require financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control to be measured using the principles in paragraph 3840.44. Do you agree with the proposal? If not, why not?*

We agree with the proposal to amend Section 3840 to require financial assets acquired or financial liabilities assumed in such a transaction to be measured using the principles in paragraph 3840.44. We agree that this is the most appropriate measurement basis and reflects what is currently occurring in practice. We appreciate the Board providing this clarification.



5. *Transition*

- a. *Do you agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2025, 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, 2025, with earlier application permitted, as this will allow entities dealing with this situation prior to 2025 to apply these practical 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?*

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.

Thank you for your consideration of the above-noted responses. We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me at 705-963-0824 or via email at [sbarton@bdo.ca](mailto:sbarton@bdo.ca).

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Sayja Barton", with a horizontal line extending to the right.

Sayja Barton, CPA, CA, MAcc  
Director, National Accounting Standards  
BDO Canada LLP

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

Via: online submission

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January 31, 2023

**SUBJECT: IMPROVEMENTS TO ACCOUNTING FOR COMMON CONTROL COMBINATIONS  
(NOVEMBER 2022)**

Dear Ms. Christopoulos:

Grant Thornton LLP (we) would like to thank you for the opportunity to provide comments on the Accounting Standards Board's (AcSB's) Exposure Draft entitled *Improvements to Accounting for Common Control Combinations* (the ED). We generally agree with the ED's proposed amendments, but suggest some modifications to provide further clarity and improvements, especially in relation to the interaction with the subsequent measurement of related party financial instruments in Section 3856. Below, please find our comments to the specific questions raised in the ED.

**Accounting for combinations under common control**

- 1. The AcSB proposes removing the reference to "Exchange amount" in paragraph 3840.44(a) so that business combinations under common control meeting specified criteria would be subject to the guidance in Section 1582. Do you agree with the proposal to remove the reference to the exchange amount in paragraph 3840.44(a)? if not, why not and what alternatives should the Board consider?**

Yes, we agree with this proposal. We would suggest that the Board consider whether there are any areas in Section 1582 that may cause unintended consequences. For example, if there is a related party lease in place that is below market, does it make sense to record an asset or liability related to that lease under 1582 in a related party transaction? Does the measurement of a related party receivable or payable at fair value make sense or should there be an exception under 1582 on initial or subsequent measurement? For example, how does the subsequent measurement of any related party financial instruments in the transaction interact with the requirements in paragraph 3856.11, which reference their initial measurement at cost or fair value? Consider the following example:

- Entity A controls Entities B, C and D (i.e., Entities B, C and D are under common control);
- Entity B and Entity C each have a related party receivable from Entity D that were being measured at cost under Section 3856 (with the same terms and conditions);
- Entity B acquires Entity C in a business combination that is accounted for in accordance with paragraph 3840.44(a); and
- Entity B consolidates its subsidiaries, including Entity C.

If the related party receivable acquired by Entity B as part of the business combination (originally due to Entity C from Entity D) is measured at fair value under Section 1582, then its subsequent measurement would be at amortized cost under paragraph 3856.11(a)(iv). However, Entity B also had a prior related party receivable owing directly from Entity D that was being subsequently measured using the cost

method under paragraph 3856.11(b). This means, on a consolidated basis, Entity B would have different subsequent measurement categories for the two related party receivable balances from Entity D (one at amortized cost, and one at cost), despite the two balances having the same counterparty and identical terms. As a result, the Board should provide clarifications on the interaction with the related party financial instrument guidance on subsequent measurement for instruments recognized in accordance with paragraph 3840.44(a).

2. **The AcSB proposes an option in paragraph 3840.44(b) either to retrospectively restate all prior periods when carrying values are used to account for a combination or to prospectively account for the transaction. The Board also proposes that enterprises only restate comparative information for the years during the which the combining entities were under common control.**

- (a) **Do you agree with the proposal in paragraph 3840.44(b) either to retrospectively restate all prior periods or to prospectively account for these combinations? If not, why not and what alternatives should the Board consider?**

Yes, we agree with this proposal. The Board should clarify whether the choice to either retrospectively restate all prior periods or to prospectively account for these combinations is meant to be applied on a transaction-by-transaction basis, or whether it should be applied consistently for all transactions in which a business is transferred between entities under common control and paragraph 3840.44(b) is applied.

- (b) **Do you agree with the proposal in paragraph 3840.44(b) that enterprises only restate comparative information for the years during which the combining entities were under common control? If not, why not and what alternatives should the Board consider?**

Yes, we agree with this proposal; however, the Board's intent is not entirely clear with the additions. We believe the guidance should require enterprises to only restate comparative information for the years during which the combining entities were under common control. However, the proposed wording in Paragraph 3840.44(b)(ii) does not take into consideration scenarios when the entities involved fell under common control and a business was transferred between those entities under common control in the same fiscal period. The proposals require the financial statements of the combined enterprise to reflect the earnings, assets and liabilities of the acquired enterprise for "the entire period in which the transfer occurred". As currently worded, this could be interpreted to mean that the financial statements should include the earnings, assets and liabilities of the acquired enterprise for a period of time before common control existed. We strongly suggest that the Board include an example to convey their intent; it would not have to be numerical, rather, it could demonstrate the implications. For example:

*Company A acquires 80% of Company B on February 12, 2022. It also owns 100% of Company C. On March 31, 2022, Company B and Company C amalgamate to form Company D. Assume the transaction does not meet the criteria in paragraph 3840.44(a) and Company C is the acquirer. For its December 31, 2022 year-end financial statements, Company D would present the full results of Company C for the year ended December 31, 2022 and the results of Company B for the period from February 12, 2022 to December 31, 2022, which is the period it was under common control. For the comparative period it would only show the results of Company C for the full year from January 1, 2021 and not include Company B as Company B was not under common control during the comparative period.*

3. **The AcSB heard from the Private Enterprise Advisory Committee that additional guidance regarding business combinations between related entities that are not under common control and defining common control may be helpful in addressing application challenges. The Board recognizes including these issues may require a larger project that could delay addressing high-priority items. Therefore, the Board intends to continue research on other issues in Section 3840 and will consider some or all these in subsequent proposals.**

- (a) **Do you think that additional guidance regarding business combinations between related companies that are not under common control is needed to address application challenges? Why or why not?**

We strongly agree that additional guidance regarding business combinations between related companies that are not under common control is needed because these transactions occur frequently in the private enterprise sector and there is no guidance for these types of transactions, leading to diversity in practice. Financial statement preparers usually follow the guidance in paragraph 3840.44 by analogy, but it is not clear if that is the most appropriate application of Section 3840. The Board should make this project a priority to provide clarity to financial statement preparers and reduce diversity in practice.

**(b) Are there any other issues regarding related party combinations in Section 3840 that you think the AcSB needs to address in subsequent proposals and why?**

At this time, we do not have any other issues regarding related party combinations in Section 3840 that we think the AcSB needs to address in subsequent proposals.

**Accounting for financial instruments acquired in a combination under common control**

**4. The AcSB proposes to amend Section 3840 to require financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control to be measured using the principles in paragraph 3840.44. Do you agree with the proposal? If not, why not?**

Yes, generally, we agree with this proposal. However, we noted some issues related to subsequent measurement for related party financial instruments recognized in accordance with paragraph 3840.44(a); please also see our response to question 1.

In addition, when proposed paragraph 3840.44(b) applies, any financial assets acquired or liabilities assumed in a combination under common control would be initially measured “at their carrying amount in the balance sheet of the transferred business”. We would like the Board to note that for subsequent measurement of any related party financial instruments, “carrying amount” is not an initial measurement category contemplated by the subsequent measurement requirements in Section 3856 Financial Instruments. Paragraph 3856.11 requires an enterprise to subsequently measure a financial instrument “based on how it initially measured the instrument”, where initial measurement is either at (a) fair value; or (b) cost. In this case, we believe the Board should clarify the subsequent measurement for these related party financial instruments under Section 3856. In particular, we suggest the board provide clarifications as follows:

- Enterprises apply paragraph 3856.11(a) (i.e., fair value measurement) to financial instruments that were initially recognized at carrying amount under paragraph 3840.44(b) and would have otherwise been recognized at fair value under Section 3856. For example, an investment in equity instruments that are quoted in an active market would be subsequently measured at fair value even if it was initially recognized at its carrying amount under a common control business combination.
- Paragraph 3856.11(b) currently requires financial instruments initially measured at “cost” to be subsequently measured using “the cost method less any reduction for impairment” and when recognizing impairment losses, paragraphs 3856.17A and .17B only apply to debt and equity instruments that were acquired in a related party transaction and “initially measured at cost”. Enterprises that initially recognized any related party financial instruments in a common control business combination in accordance with Section 3840.44(b) should have to apply paragraphs 3856.11(b), .17A and .17B to financial instruments that were initially recognized at carrying amount under paragraph 3840.44(b), when they would otherwise have been initially measured at cost under Section 3856.

To address the issue, there may need to be wording added to paragraph 3840.44(b) to state that for related party financial instruments in the transaction, the subsequent measurement is determined based on how the enterprise would have initially measured the instrument under Section 3856, and that the carrying amount becomes their initial fair value or deemed cost for the purposes of subsequent measurement in Section 3856.

## Transition

5. The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2025, 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, 2025, with earlier application permitted? If not, why not?

Yes, we agree with this proposal, but we suggest that the standard should clearly state that combinations prior to this date are not revisited because, in practice, there is confusion on the prospective application of standards (i.e., it only applies to new transactions or entities have to adjust old transactions, but it flows through current period.)

- (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 this proposal

## Other comments

We would like to suggest that the AcSB also consider providing a similar option to restate comparative periods for not-for-profit organizations (NPOs) who apply merger accounting. It should be up to the NPOs to decide what is needed for their users.

If you wish to discuss our comments or concerns, please contact Melanie Joseph  
(Melanie.Joseph@ca.gt.com, 416-607-2736)

Yours sincerely



Grant Thornton LLP  
Melanie Joseph, CPA, CA



January 31, 2023

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

Dear Ms. Christopoulos:

**Re: Improvements to Accounting for Common Control Combinations (“Exposure Draft” or “proposal”)**

We welcome the opportunity to comment on the Accounting Standards Board’s (“AcSB” or the “Board”) proposal to amend Section 3840, *Related party transactions* (“Section 3840”) and consequential amendments. Subject to our comments below on the restatement of comparative information when carrying values are used to account for a combination, we believe that, overall, the proposed amendments are helpful and will provide clarity on the application of the standards. We also believe that there are further opportunities for the Board to clarify the interaction between the requirements of Section 3840 and other ASPE accounting standards, as we explain further in our responses.

Our responses to the specific questions in the Exposure Draft are included below.

Question 1. *The AcSB proposes removing the reference to “exchange amount” in paragraph 3840.44(a) so that business combinations under common control meeting specified criteria would be subject to the guidance in Section 1582. Do you agree with the proposal to remove the reference to the exchange amount in paragraph 3840.44(a)? (See proposed paragraph 3840.44(a) and the consequential amendments.) If not, why not and what alternatives should the Board consider?*

We agree with the Board’s objective to clarify that business combinations under common control meeting specific criteria are subject to the guidance in Section 1582.

We are concerned, however, that as a result of the proposed amendments there would be a conflict between the guidance in Section 1582 requiring consideration to be measured at fair value, and the initial recognition guidance for related party transactions in Section 3856 *Financial instruments*. For example, if part of the consideration for the business combination consists of promissory notes that do not bear interest at a market rate, the initial recognition of these at fair value, as is required by Section 1582, would result in a different amount than the initial recognition of these at cost, using the guidance in Section 3856.

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“PwC” refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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January 31, 2023

If it is the intent of the Board that these instruments are measured at fair value, we recommend clarifying the scope of Section 3856 to exclude from its scope financial instruments issued as consideration for a business combination in the scope of paragraph 3840.44(a).

*Question 2. The AcSB proposes an option in paragraph 3840.44(b) either to retrospectively restate all prior periods when carrying values are used to account for a combination or to prospectively account for the transaction. The Board also proposes that enterprises only restate comparative information for the years during which the combining entities were under common control.*

*(a) Do you agree with the proposal in paragraph 3840.44(b) either to retrospectively restate all prior periods or to prospectively account for these combinations? If not, why not and what alternatives should the Board consider?*

When there is a combination of entities that both meet the definition of a business, we believe an option to prospectively account for the transaction is useful. However, we have significant concerns with the application of the option as currently proposed. Our concerns and alternatives are explained below.

To account for the earnings, assets and liabilities of the acquired enterprise only from the date the transaction occurs, it is essential to be able to determine which of the combining enterprises is the acquirer and which is the acquired enterprise. This puts much more emphasis on the definition of “acquirer” in the context of transfers of businesses between entities under common control. In some cases, it may be easy to determine which entity is the acquirer. However, there is no definition of acquirer within Section 3840, and these transactions are not in the scope of Section 1582. Therefore, we believe in many cases, it may be challenging to determine which is the continuing entity for financial reporting purposes, and therefore, which entity’s financial information would be presented as comparatives. This lack of guidance may lead to diversity in practice.

Our main concerns are:

- a. it is unclear whether the reference to “acquirer” in paragraph 3840.44(b) refers to the legal acquirer, as set out in the acquisition agreement, or an acquirer determined for accounting purposes (such as is required by Section 1582).
- b. if the reference to “acquirer” refers to the legal acquirer, this may result in circumstances where no comparatives are prepared.

For example, it is common for a new holdco (which is not a business) to be set up by the ultimate controlling party to acquire an existing operating business for restructuring or other purposes. Based on the proposed wording, the new holdco, as legal acquirer, would be the acquiring enterprise and the operating business the transferred business. Under the option to present the combined results from the date of the transaction, only the new holdco would be required to show comparative information – of which there would be none as the holdco was set up solely for the restructuring purpose – and no comparative information of the ongoing business would be required to be presented. We believe this results in a lack of useful information provided to users



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of the financial statements and would contradict the principles of fair presentation and the assumption that comparative information is meaningful as set out in Section 1400, *General standards of financial statements*.

- c. if the reference to “acquirer” refers to the acquirer for accounting purposes, there is limited guidance to determine which entity is the accounting acquirer in a business combination between entities under common control. As mentioned above, these transactions are not in the scope of Section 1582. Even if an entity were to look at the guidance in paragraphs 1582.A9 to .A14, in many cases this guidance would not be conclusive. The principle of the guidance in Section 1582 is to determine which entity obtains control of the other business. However, in a transaction under common control there is no change of control. Many of these transactions are effected through the transfer or issuance of shares rather than cash or other assets. In addition, the combining entities often have the same ownership, the same management, and the same governing body both before and after the transaction.
- d. there might be diversity in how this guidance could be applied to certain amalgamations, such as those between sister entities where the amalgamated entity is a new legal entity rather than a continuation of an existing entity. In this circumstance there is no legal acquirer, and it may not be clear which of the combining entities is the accounting acquirer. In such circumstances an entity might conclude that there is therefore no acquirer, and present no comparative information.

We believe the above items could lead to both diversity in practice and lack of useful information being made available to users.

We do not believe that a free choice should be permitted where this may result in no comparative information being provided, such as in the case of a restructuring as described above, or in an amalgamation where the acquiring entity cannot be identified.

While the basis of conclusions states “the Board thinks the proposed option will allow enterprises to work with their financial statements users to determine the most useful presentation approach” (paragraph 16), this may not result in general purpose financial statements, as different user groups may have different needs, potential users groups may not be considered in this analysis, and, as drafted, there is no requirement in the standard to ensure an entity considers users’ needs in determining an accounting policy, as the option appears to be a free choice made on a transaction by transaction basis.

Therefore, we suggest that the Board consider one (or more than one in conjunction with each other) of the following alternatives to address the concerns identified above:

- Providing guidance on how to determine which entity is the acquiring entity.
- In the case of a restructuring where one of the entities is not a business, require comparatives of the entity that is a business to be presented, and the effects of the restructuring to be shown prospectively.



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- Require comparative information for all combining entities to be provided unless the comparatives for one or more entities cannot be readily determined on a reliable basis. In this case, appropriate disclosures stating that the information for one or more of the combining entities is not provided and why should be provided.

Question 2 (b). *Do you agree with the proposal in paragraph 3840.44(b) that enterprises only restate comparative information for the years during which the combining entities were under common control? If not, why not and what alternatives should the Board consider?*

Yes, we agree that Section 3840.44(b) should be clarified to state that comparative information is restated only in respect of years during which the combining entities were under common control.

Question 3. *The AcSB heard from its Private Enterprise Advisory Committee that additional guidance regarding business combinations between related entities that are not under common control and defining common control may be helpful in addressing application challenges. The Board recognizes including these issues may require a larger project that could delay addressing high-priority items. Therefore, the Board intends to continue research on other issues in Section 3840 and will consider some or all these in subsequent proposals.*

*(a) Do you think that additional guidance regarding business combinations between related companies that are not under common control is needed to address application challenges? Why or why not?*

Yes, we believe that additional guidance regarding business combinations between related parties that are not under common control is needed to address application challenges.

There are situations, particularly in complex family groups, where entities are related parties to each other under Section 3840 but not under common control. Some common situations are outlined below:

- Adult family members each own a percentage of a company that gives significant influence (or joint control), and there is a transaction that results in the sale of that entity to a company controlled by only one (or two) of the family members.
- Certain restructuring of Trusts (including Family Trusts) that result in transfers of businesses to related parties, but not to ones under common control.
- Restructuring through the transfer of a business to a different entity to permit ownership by an additional investor. For example, three shareholders, each with significant influence, own 30%, 30% and 40% respectively of the original entity, and the business is transferred to a different entity (either newly set up, or existing) with four shareholders – the original three holding 30%, 30% and 30% and a new investor holding 10%.

As these are business combinations that are not between entities under common control, they are in scope of Section 1582 for the entire business combination accounting. However, as they are related party



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transactions they are **also** in scope of Section 3840. We observe that with many of these transactions, the existence of multiple shareholders means that under Section 3840 these transactions are monetary (or non-monetary but have commercial substance), have a substantive change in ownership interests and the amount of the consideration is supported by independent evidence (that meets the requirements of Section 3840 paragraph 40). However, as noted in the proposed Basis of Conclusions paragraphs 6 and 21, it is unclear how to apply the guidance in Section 1582 to a related party transaction measured at exchange amount. In addition, if the analysis in Section 3840 results in recording the transaction at carrying amount it is unclear how this would be done while also complying with the requirements in Section 1582, or which standard would take precedence.

Therefore, we believe that the Board should clarify the accounting for these transactions in order to resolve the conflict between the two standards.

Where the transactions meet the conditions to be measured at exchange amount, as outlined in Section 3840, we believe that Section 1582 provides the appropriate model for accounting for such related party business combinations (subject to our recommendations in our response to Question 1 above). However, when the conditions are not met, for example, where management does not have independent evidence of fair value for the exchange amount, we believe it would be more consistent to account for such a transaction using the guidance in Section 3840 and specifically, in accordance with Section 3840 paragraph 44(b).

In other words, we propose that business combinations between related parties that are not under common control have the same scoping provisions and accounting requirements as business combinations under common control. We believe that this is a pragmatic and relatively straightforward solution that also avoids the need to provide more application guidance on when a business combination is between parties under common control or not, in complex arrangements where ultimate control is not clearly by a single controlling party.

*(b) Are there any other issues regarding related party combinations in Section 3840 that you think the AcSB needs to address in subsequent proposals and why?*

We believe it is currently unclear which standard applies to the acquisition, in a related party transaction, of an interest in an entity subject to control, joint control, or significant influence (referred to as “interests in other entities” in this response). We believe it is important that the Board clarify the scoping of such transactions to reduce diversity in practice. The issue arises because such interests in other entities are financial items (as opposed to non-financial items) by definition, but are specifically scoped out of Section 3856.

Prior to the revisions to Section 3840, effective January 1, 2021 (“the 2021 amendments”), these transactions were accounted for within the scope of Section 3840. However, as a result of the 2021 amendments, Section 3840 paragraph 1 indicates the section applies to *non-financial items*. This indicates that interests in other entities are not in scope of Section 3840. If the transfer of related party interests in other entities are out of the scope of Section 3840, they would be accounted for using the applicable section – Section 1591 *Subsidiaries*, Section 3056 *Interests in joint arrangements*, or Section 3051



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*Investments*, depending on the nature of the interest. These standards require interests to be initially measured at cost, which is generally defined as acquisition date fair value of the consideration transferred (e.g., 3051 paragraph 07A(a) and 1591 paragraph 26A(b)). This may place a significant burden on preparers to determine fair value of the consideration transferred which is often in the form of equity instruments and not easily determinable without performing a full valuation of the transferred interest.

We believe the intention of the 2021 amendments was to move only financial instruments accounted for within the scope of Section 3856 out of the scope of Section 3840 as, for example, 3840.07A distinguishes only two categories of items – non-financial items measured in accordance with Section 3840 and those measured in accordance with Section 3856:

*The term “related party transaction” and references to items transferred shall be read to refer to non-financial items transferred in a related party transaction. Financial instruments transferred in a related party transaction shall be measured in accordance with FINANCIAL INSTRUMENTS, Section 3856”.*

We also observe that Example 3 in Section 3840 includes a transaction where an interest in another entity that gives control, joint control or significant influence is acquired and measured at exchange amount or carrying value in accordance with Section 3840, indicating that these interests could be accounted for within Section 3840.

However, we note that illustrative examples are not primary sources of GAAP as set out in ASPE Section 1100, *Generally accepted accounting principles*, paragraph 16 and therefore the authoritative nature of this example is unclear. Further, the existing wording in Section 3840 paragraph 1 appears to be in conflict with this illustrative guidance.

We believe related party transactions that transfer an interest in another entity is common in Canadian private companies, particularly within large family groups. We observe some diversity in practice emerging with respect to the accounting for these transactions. As such, we request that the Board consider addressing this issue. For example, it may be appropriate to amend Section 3840 paragraph 1 to clarify that the Section establishes standards for the measurement of items, other than those items accounted for in accordance with Section 3856, in a related party transaction.

Question 4. *The AcSB proposes to amend Section 3840 to require financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control to be measured using the principles in paragraph 3840.44. Do you agree with the proposal? If not, why not?*

Yes, we agree with the proposal. Consistent with our response to Question 3(a) above, we believe this should also be extended to financial assets acquired or financial liabilities assumed when a business is transferred between related parties that are not under common control.



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Question 5. *The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2025, 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, 2025, with earlier application permitted? If not, why not?*

Yes, we 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?*

Yes, we agree with the proposal.

We would be pleased to respond to any questions you might have. Questions can be addressed to Celeste Murphy ([celeste.k.murphy@pwc.com](mailto:celeste.k.murphy@pwc.com)), Lucy Durocher ([lucy.durocher@pwc.com](mailto:lucy.durocher@pwc.com)) or Sean Cable ([sean.c.cable@pwc.com](mailto:sean.c.cable@pwc.com)).

Yours very truly,

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Le 31 janvier 2023

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Madame Katharine Christopoulos, CPA  
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**Objet : Exposé-sondage – Améliorations visant le traitement comptable des regroupements d'entreprises sous contrôle commun (novembre 2022)**

Madame,

Raymond Chabot Grant Thornton LLP (ci-après « RCGT ») tient à vous remercier de nous avoir donné l'opportunité de formuler nos commentaires sur l'exposé-sondage publié par le Conseil des normes comptables (le « CNC »), « Améliorations visant le traitement comptable des regroupements d'entreprises sous contrôle commun ».

Nous appuyons l'initiative du CNC pour améliorer le traitement comptable des regroupements d'entreprises sous contrôle commun comptabilisés conformément aux Normes comptables pour les entreprises privées (NCECF). De manière générale, nous sommes d'accord avec les enjeux identifiés par le CNC dans cet exposé-sondage et du besoin d'y apporter des clarifications. Nous tenons toutefois à porter à votre attention certaines préoccupations importantes à l'égard des modifications proposées. Nous sommes notamment préoccupés par l'ajout précipité de clarifications au paragraphe .44 du chapitre 3840, « Opérations entre apparentés », sans avoir dans un premier temps, clarifié les opérations qui sont visées par ce paragraphe et par les modifications proposées par cet exposé-sondage. Bien que l'actuel exposé-sondage vise à apporter des améliorations au traitement comptable des regroupements d'entreprises sous contrôle commun, une expression qui elle-même requière d'être définie ou clarifiée, le paragraphe 3840.44 traite uniquement des opérations portant sur la cession d'une entreprise entre deux entreprises sous contrôle commun. De telles opérations représentent une infime proportion des opérations de regroupements entre des entités sous contrôle commun qui sont réalisées par les entreprises à capital fermé.

Il résulte de cette confusion quant à la nature des opérations qui sont visées par les modifications proposées, que l'impact de certaines des propositions nous apparaît difficile à identifier. Nos commentaires sur les questions spécifiques de l'exposé-sondage ainsi que certains commentaires généraux sur des questions qui ne sont pas spécifiquement adressées dans l'exposé-sondage se trouvent à l'annexe A.

Si vous souhaitez discuter de nos commentaires ou préoccupations, n'hésitez pas à communiquer avec Stéphane Landry, CPA ([landry.stephane@rcgt.com](mailto:landry.stephane@rcgt.com)) ou Stéphanie Fournier, CPA ([fournier.stephanie@rcgt.com](mailto:fournier.stephanie@rcgt.com)).

Veuillez agréer, Madame, nos salutations distinguées.

*Raymond Chabot Grant Thornton S.E. N.C. R. L.*

Stéphane Landry, CPA, Associé  
Stéphanie Fournier, CPA, Directrice principale

## ANNEXE A – RÉPONSES AUX QUESTIONS DE L'EXPOSÉ-SONDAGE

### Traitement comptable des regroupements d'entreprises sous contrôle commun

1. Le CNC propose de supprimer la mention de « valeur d'échange » dans l'alinéa 3840.44 a) de sorte que les regroupements d'entreprises sous contrôle commun qui répondent à certains critères seraient inclus dans le champ d'application du chapitre 1582. Appuyez-vous cette proposition? (Voir l'alinéa 3840.44 a) proposé et les modifications corrélatives.) Dans la négative, pourquoi, et quelles solutions le CNC devrait-il envisager?

Puisque les principes d'évaluation à la valeur comptable ou à la valeur d'échange sont inhérents à l'évaluation des opérations entre apparentés comptabilisées selon le chapitre 3840, nous aurions préféré que l'alinéa 3840.44a) conserve la mention de « valeur d'échange » (en faisant référence au paragraphe 3840.29) dans un souci de cohérence avec les principes d'évaluation des opérations entre apparentés prévus dans le chapitre 3840. Nous aurions également souhaité que l'alinéa 3840.44a) précise plutôt les exigences spécifiques du chapitre 1582 qui doivent être appliquées lorsqu'un tel regroupement doit être évalué à la valeur d'échange en vertu du chapitre 3840.

En proposant que l'opération soit comptabilisée conformément aux exigences du chapitre 1582, nous comprenons qu'une entité qui procèderait à une telle opération, devrait appliquer l'ensemble des exigences prévues dans le chapitre 1582, incluant notamment la détermination d'un acquéreur, ce qui ne semble pas être approprié dans le contexte d'une opération réalisée entre deux sociétés sous contrôle commun. L'application intégrale des exigences du chapitre 1582 impliquerait également la nécessité d'évaluer à la juste valeur toute contrepartie transférée dans le cadre d'une telle opération.

Après avoir pris connaissance de la modification corrélative proposée au paragraphe 3840.07A, nous comprenons toutefois que l'intention du CNC n'était possiblement pas d'exiger l'application de la totalité des exigences du chapitre 1582 lors de la comptabilisation d'une telle opération. En effet, selon notre compréhension, la modification proposée au paragraphe 3840.07A vise à ce qu'exclusivement les actifs financiers « acquis » et les passifs financiers « pris en charge » dans le cadre d'une opération visée par le paragraphe 3840.44, ce qui implique que **(1)** seulement les actifs et les passifs de l'entreprise transférée, qu'ils soient financiers ou non, seraient initialement comptabilisés et évalués conformément aux exigences du chapitre 1582 et que **(2)** l'évaluation initiale des actifs financiers « créés » et des passifs financiers « émis » à titre de contrepartie, devraient être évalués conformément aux exigences du chapitre 3856, « Instruments financiers », afférents à l'évaluation initiale des instruments financiers créés ou émis dans une opération entre apparentés. Dans le cadre de ce type d'opération, plusieurs formes de contreparties peuvent être émises, dont des billets à payer ne portant pas intérêt (ou à des conditions hors-marché), des actions

rachetables au gré du porteur émises dans une opération de planification fiscale et des contreparties conditionnelles.

Si les modifications proposées à l'alinéa 3840.44a) avaient comme unique objectif d'apporter des précisions à l'effet que l'évaluation des actifs acquis et des passifs pris en charge de l'entreprise transférée dans une telle opération soit conforme aux principes d'évaluation énoncés au chapitre 1582, nous sommes en accord avec l'objectif des modifications proposées. Pour atteindre cet objectif, nous suggérons toutefois que les modifications suivantes soient apportées à l'alinéa 3840.44a) qui stipulent que :

- Les principes de comptabilisation et d'évaluation relatifs aux actifs acquis, aux passifs repris et à l'écart d'acquisition (ou du gain résultant d'un regroupement d'entreprises résultant d'une acquisition à des conditions avantageuses, le cas échéant) des paragraphes .11 à .38 du chapitre 1582 (incluant les paragraphes correspondants de l'Annexe du chapitre) doivent être appliqués;
- Le chapitre 3856 doit être appliqué en ce qui concerne la comptabilisation et l'évaluation initiales des instruments financiers émis à titre de contrepartie, à l'exception des instruments financiers exclus du champ d'application décrits au paragraphe 3856.03. Cette proposition assurerait une cohérence quant à la méthode à utiliser pour l'évaluation initiale et ultérieure de tout instrument financier de l'entité issue du regroupement ayant été créé ou émis entre apparentés, sans égard à la nature de l'opération ayant donné lieu à leur comptabilisation.

Nous proposons donc que l'alinéa 3840.44a) soit modifié comme suit (les ajouts proposés au libellé actuel de ce paragraphe sont soulignés ou rayés) :

*.44 Sauf exception précisée à l'alinéa .26A du chapitre 1591, FILIALES, la cession d'une entreprise entre deux entreprises sous contrôle commun est comptabilisée comme suit :*

*a) Lorsque les critères du paragraphe 3840.29 sont atteints et que l'opération est évaluée à la valeur d'échange, ~~le regroupement d'entreprises est comptabilisé conformément au chapitre 1582,~~ REGROUPEMENT D'ENTREPRISES la partie apparentée qui comptabilise l'entreprise transférée doit comptabiliser et évaluer les actifs identifiables acquis, les passifs repris et toute participation ne donnant pas le contrôle dans l'entreprise acquise ainsi que l'écart d'acquisition (ou le gain résultant d'une acquisition à des conditions avantageuses, le cas échéant) conformément aux paragraphes .11 à .38 du chapitre 1582, REGROUPEMENTS D'ENTREPRISES. Les actifs financiers créés et les passifs financiers émis à titre de contrepartie doivent être évalués conformément au chapitre 3856, INSTRUMENTS FINANCIERS;*

*(...)*

L'exception prévue au champ d'application à l'alinéa 1582.02b) devrait à notre avis également être modifiée de la façon suivante par souci de cohérence (les ajouts proposés au libellé actuel de ce paragraphe sont soulignés) :

*.02 Le présent chapitre s'applique à une transaction ou à un autre événement qui répond à la définition d'un regroupement d'entreprises. Le présent chapitre ne s'applique pas à :*

*[...]*

*b) un regroupement d'entités ou d'entreprises sous contrôle commun, à l'exception des paragraphes .11-.38 qui s'appliquent à la comptabilisation et l'évaluation initiale des actifs acquis et des passifs repris lorsque le regroupement d'entreprises sous contrôle commun est évalué à la valeur d'échange (voir paragraphe 3840.44a)).*

*[...]*

2. **Le CNC propose d'ajouter un choix à l'alinéa 3840.44 b) entre le retraitement rétrospectif des chiffres de toutes les périodes antérieures lorsque les valeurs comptables sont utilisées pour comptabiliser le regroupement, d'une part, et la comptabilisation prospective de l'opération, d'autre part. Il propose également que le retraitement des informations comparatives ne porte que sur les exercices au cours desquels les entreprises se regroupant étaient sous contrôle commun.**

Les préoccupations que nous soulevons à la question 3 ci-après, font état de la confusion qui existe en pratique quant au champ d'application des opérations visées par les exigences du paragraphe 3840.44, notamment à savoir si un regroupement réalisé sous la forme d'une fusion entre deux entreprises sous contrôle commun est un exemple d'opérations visées par ce paragraphe ou non. Certains de nos commentaires en réponse à la question 2 sont étroitement liés à cette confusion.

- a) **Êtes-vous en faveur de la proposition d'ajouter, à l'alinéa 3840.44 b), un choix entre le retraitement rétrospectif des chiffres de toutes les périodes antérieures et la comptabilisation prospective du regroupement? Dans la négative, pourquoi, et quelles solutions le CNC devrait-il envisager?**

Nous sommes favorables à la proposition de permettre un allègement ou un choix quant au retraitement ou non des informations antérieures à la date du regroupement. Nous sommes toutefois d'avis que des précisions devraient être apportées pour clarifier l'application de ces deux choix. Les paragraphes qui suivent présentent deux enjeux pour lesquels nous croyons important que des précisions soient apportées lorsqu'une entité fait le choix de comptabiliser le regroupement prospectivement.

Poste des capitaux propres où comptabiliser l'écart résultant de la comptabilisation du regroupement

Advenant qu'une entité fasse le choix de comptabiliser le regroupement sur une base prospective, nous comprenons que les actifs acquis et les passifs pris en charge de l'entreprise transférée seront comptabilisés dans les états financiers de l'entité qui les a acquis seulement à compter de la date à laquelle ils ont été acquis légalement. Si le montant de la contrepartie émise pour procéder à l'acquisition est différent de la valeur comptable nette des actifs et passifs comptabilisés, un écart en résultera.

Actuellement, les modifications proposées au sous-alinéa 3840.44 b) i) ne précisent pas le poste où tout écart résultant de la comptabilisation d'un tel regroupement doit être comptabilisé. Les autres exigences du chapitre 3840 traitant de la comptabilisation d'opérations entre apparentés évaluées à la valeur comptable nous amènent à conclure que cet écart devrait être comptabilisé dans les capitaux propres. Toutefois, si aucune indication n'est précisée, certaines entités pourraient recourir aux principes du paragraphe 3840.17 et comptabiliser l'écart dans le surplus d'apports dans l'éventualité où celui-ci est créditeur. D'autres entités pourraient toutefois décider qu'il serait plus logique de comptabiliser l'écart créditeur en augmentation des bénéfices non répartis afin que le solde des bénéfices non répartis soit le même sans égard au fait que les informations comparatives aient été retraitées ou non.

Pour pallier cette préoccupation, nous suggérons que des précisions soient apportées aux modifications actuellement proposées au sous-alinéa 3840.44 b) i) afin d'y inclure une exigence sur le poste des capitaux propres où l'écart résultant de la comptabilisation de l'opération doit être comptabilisé. Cette précision devrait mentionner que « tout écart débiteur ou créditeur résultant de l'opération soit comptabilisé dans les bénéfices non répartis ». De notre avis, le choix d'appliquer les sous-alinéas 3840.44 b) i) ou ii) ne devrait avoir comme seule conséquence la présentation des informations présentées aux fins de comparaison et de l'état des résultats de l'exercice du regroupement (pour la période antérieure à la date de l'opération), mais ce choix ne devrait pas entraîner de différence au bilan de l'entreprise issue du regroupement.

Aussi, pour éviter toute confusion, nous suggérons d'ajouter une mention au paragraphe 3840.17 à l'effet que les exigences du paragraphe 3840.17 ne s'appliquent pas à la comptabilisation des regroupements comptabilisés conformément au sous-alinéa 3840.44 b) i).

Notre réponse à la question 2b) ci-après, soulève une préoccupation similaire quant à la comptabilisation de tout écart résultant d'un regroupement comptabilisé conformément à l'alinéa 3840.44 b) advenant qu'une entité fasse le choix de retraiter les informations comparatives pour les périodes au cours desquelles les deux entités se regroupant étaient sous contrôle commun.

### Fusions de sociétés sous contrôle commun

Notre réponse à la question 3a) ci-après, traite de la confusion qui existe en pratique sur la question de savoir si une fusion horizontale entre deux sociétés sous contrôle commun est une opération à laquelle les exigences du paragraphe 3840.44 s'applique. Si tel était le cas, nous souhaiterions que le CNC illustre, sous la forme d'un exemple, comment le choix de comptabilisation prospective s'applique lors d'une fusion entre deux sociétés sous contrôle commun. Dans ce contexte où les deux entreprises sont regroupées sans qu'il n'y ait acquéreur ni aucune entreprise acquise, serait-il approprié d'interpréter qu'aucune information comparative antérieure à la date de l'opération n'aurait à être présentés dans les états financiers de l'entreprise issue du regroupement?

**b) Êtes-vous en faveur de la proposition énoncée à l'alinéa 3840.44 b) selon laquelle seules les informations comparatives des exercices au cours desquels les entreprises se regroupant étaient sous contrôle commun devraient être retraitées? Dans la négative, pourquoi, et quelles solutions le CNC devrait-il envisager? (Voir l'alinéa 3840.44 b) proposé.)**

Bien que nous soyons favorables à conserver la possibilité de retraiter les informations comparatives, nous sommes d'avis que le CNC devrait également permettre le retraitement des informations comparatives au-delà des exercices au cours desquels les entreprises se regroupant sont devenues sous contrôle commun. Cet ajout permettrait conserver une présentation des informations comparatives cohérente avec la méthode actuellement utilisée par les entreprises à capital fermé pour de telles opérations.

L'approche proposée dans l'exposé-sondage permet de refléter les informations comparatives (principalement au niveau des résultats d'exploitation) en adoptant essentiellement le point de vue consolidé du groupe corporatif, soit de présenter les actifs, passifs, produits et charges des entreprises regroupées uniquement à compter du moment où elles sont devenues sous contrôle commun. Nous estimons que cette approche est appropriée dans la mesure où elle répond aux besoins d'informations financières des principaux utilisateurs des états financiers.

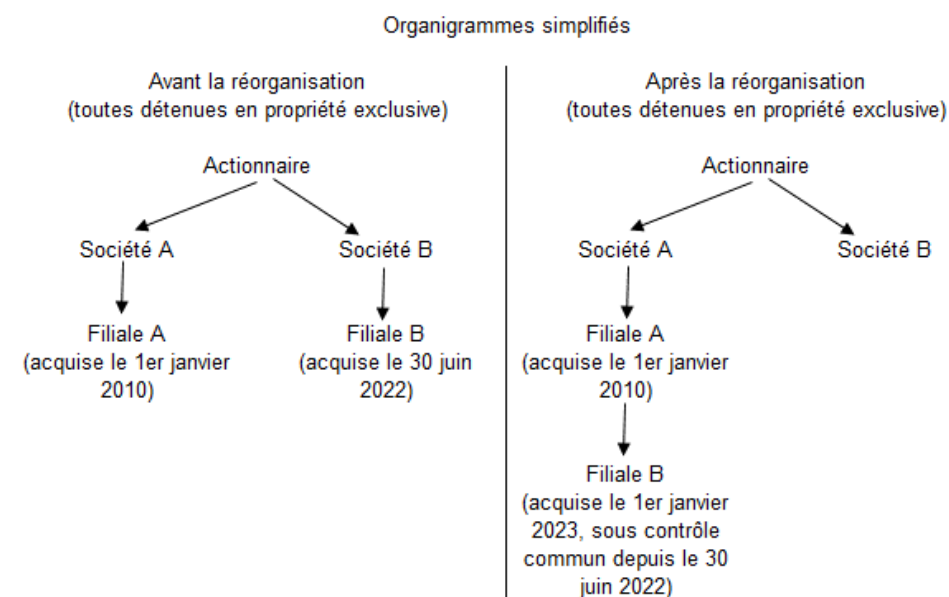
Ceci dit, de notre expérience, dans plusieurs circonstances, les principaux utilisateurs des états financiers (tels que des créanciers) ont signifié leur intérêt à ce que les états financiers de l'entreprise issue du regroupement présentent les résultats des deux entreprises sous contrôle commun regroupées pour tout l'exercice et pour toutes les périodes antérieures présentées, sans égard au moment où les deux entreprises sont devenues sous contrôle commun. Une telle approche permet, du point de vue de ces utilisateurs, de mieux refléter les résultats d'exploitation des deux entreprises regroupées sans égard au changement qui ont pu survenir dans leur actionnariat (par exemple un changement de l'actionnaire contrôlant de l'une de ces deux entreprises) et nous apparaît être cohérente avec les principes de compréhensibilité et de comparabilité énoncés respectivement aux paragraphes .16 et .19 à .20 du chapitre 1000, « Fondements conceptuels des états financiers ».

Nous sommes donc d'avis que deux choix de retraitement des informations comparatives devraient être permis.

Dans le même ordre d'idée, nous proposons que les entités puissent disposer d'un choix quant à la « valeur comptable » à utiliser pour comptabiliser un regroupement en vertu de l'alinéa 3840.44 b), selon celle qui permet de produire l'information qui répond le mieux aux besoins d'informations financières des principaux utilisateurs des états financiers. De notre point de vue, les entités devraient pouvoir utiliser une des deux « valeurs comptables » suivantes :

- La valeur comptable des actifs et passifs figurant dans les états financiers de l'entreprise cédée au moment du transfert;
- La valeur comptable à laquelle les actifs et passifs de l'entreprise cédée figurent dans les comptes consolidés du cédant au moment du transfert (ou la valeur comptable à laquelle ils y figureraient si le cédant avait préparé des états financiers consolidés à cette date).

L'exemple suivant permet d'illustrer notre proposition :



Société A, ayant une fin d'exercice au 31 décembre 2023, acquiert le 1<sup>er</sup> janvier 2023 Filiale B de Société B, une société sous contrôle commun. Société B a acquis le contrôle de Filiale B le 30 juin 2022 en concluant un regroupement d'entreprises auprès d'une partie non apparentée. Société A et Filiale B sont donc des sociétés sous contrôle commun seulement depuis le 30 juin 2022.

Dans ce contexte, nous proposons que Filiale A puisse disposer des choix suivants :

- Comptabiliser les actifs et passifs de Filiale B à la valeur comptable à laquelle ils figurent dans les états financiers de Filiale B, en disposant d'un choix supplémentaire entre :
  - Comptabiliser uniquement les actifs, passifs, produits et charges de Filiale B à compter au 1<sup>er</sup> janvier 2023 (date d'acquisition de Filiale B par Filiale A) sans retraitement de ses informations comparatives pour y inclure les actifs, passifs, produits et charges de Filiales B pour l'exercice terminé le 31 décembre 2022 ;
  - Retraiter ses informations comparatives pour y inclure les actifs, passifs, produits et charges de Filiale B pour tout l'exercice terminé le 31 décembre 2022, et ce même si Filiale B est devenue une société sous contrôle commun à compter du 30 juin 2022 uniquement.
- Comptabiliser les actifs et passifs de Filiale B à la valeur comptable à laquelle ils figurent dans les états financiers consolidés de Société B (ou la valeur comptable à laquelle ils y figureraient si Société B avait préparé des états financiers consolidés), en disposant d'un choix supplémentaire entre :
  - Comptabiliser uniquement les actifs, passifs, produits et charges de Filiale B à compter au 1<sup>er</sup> janvier 2023 sans retraitement de ses informations comparatives pour y inclure les actifs, passifs, produits et charges de Filiale B pour l'exercice terminé le 31 décembre 2022;
  - Retraiter ses informations comparatives pour y inclure les actifs, passifs, produits et charges de Filiale B pour la période du 1<sup>er</sup> juillet 2022 au 31 décembre 2022, soit uniquement à compter du moment où Filiale B est devenue une société sous contrôle commun.

**3. Le Comité consultatif a mentionné au CNC que l'ajout d'indications sur les regroupements d'entreprises apparentées qui ne sont pas sous contrôle commun et d'une définition de ce qu'est le contrôle commun pourrait aider à résoudre les difficultés d'application. Du point de vue du CNC, un projet plus vaste pourrait être nécessaire pour traiter ces questions, ce qui retarderait l'examen de celles qui sont hautement prioritaires. Par conséquent, il entend poursuivre ses recherches concernant les autres problèmes que pose le chapitre 3840 et envisagera de les résoudre, en partie ou en totalité, dans le cadre d'un projet ultérieur.**

**a) Croyez-vous que des indications supplémentaires sur les regroupements d'entreprises apparentées qui ne sont pas sous contrôle commun sont nécessaires pour résoudre les difficultés d'application? Veuillez motiver votre réponse.**

Oui.

Nous souhaitons tout d'abord porter à l'attention du CNC qu'il existe actuellement une importante confusion sur le type d'opérations visées par le champ d'application du paragraphe 3840.44. Actuellement, ce paragraphe fait référence uniquement à la « cession d'une entreprise entre deux entreprises sous contrôle commun », bien que les situations de regroupements d'entreprises sous contrôle commun ou entre sociétés apparentées que nous observons en pratique englobent plusieurs autres types de transactions, au nombre desquelles figurent les cessions d'entreprises entre deux entreprises sous contrôle commun. Parmi ces transactions, notons parmi les plus fréquentes les fusions verticales (mère-filiale) ou horizontales (sociétés sous contrôle commun, contrôle conjoint ou influence notable commune) et les liquidations.

Nous suggérons que le champ d'application du paragraphe 3840.44 soit dans un premier temps revu afin de clarifier les types de transactions visées par ces exigences. L'intitulé du présent exposé-sondage, « Améliorations visant le traitement comptable des regroupements d'entreprises sous contrôle commun », contribue à cette confusion, puisque l'expression « regroupements d'entreprises sous contrôle commun » englobe des situations qui semblent beaucoup plus larges que la « cession d'une entreprise entre deux entreprises sous contrôle commun », notamment les situations couramment observées dans notre pratique de fusions horizontales.

Dans ce contexte, si l'intention est que les exigences du paragraphe 3840.44 s'appliquent à tous les regroupements d'entreprises sous contrôle commun, nous croyons important que le CNC modifie la terminologie utilisée au paragraphe 3840.44 (« regroupements d'entreprises sous contrôle commun » plutôt que « cession d'une entreprise entre deux entreprises sous contrôle commun ») en plus de clarifier ce que représente un regroupement d'entreprises sous contrôle commun. Trois termes inclus dans cette expression nécessitent à notre avis d'être clarifiés (à l'aide notamment de définitions ou d'exemples illustratifs), soit les termes « regroupement », « entreprises » et « contrôle commun ».

i) Regroupement.

Le CNC devrait préciser que le paragraphe 3840.44 s'applique à toute opération donnant lieu à un regroupement d'entreprises sous contrôle commun, et ce, peu importe le processus légal utilisé pour procéder au regroupement, par exemple une acquisition, une fusion ou une liquidation.

ii) Entreprise

Selon notre compréhension, le terme « entreprise » utilisé dans l'expression « regroupement d'entreprises sous contrôle commun » désigne ce qui est transféré ou regroupé. Ce terme porte à notre avis à confusion car il n'est pas clair s'il réfère au concept d'entreprise au sens prévu au chapitre 1582 ou s'il réfère au concept plus large d'entité légale. À la lumière des modifications apportées à l'alinéa 3840.44a), nous comprenons que l'intention était que le terme « entreprise » réfère au concept d'entreprise prévu dans le chapitre 1582 (c.-à-d. à un ensemble intégré d'activités et d'actifs, susceptibles d'être exploités et gérés dans le but de fournir directement (...) un rendement sous forme de dividendes, de coûts inférieurs ou d'autres avantages économiques) car l'alinéa réfère à ce chapitre pour la comptabilisation de la transaction.

Si l'intention est que le concept d'entreprise du chapitre 1582 soit utilisé pour déterminer si une transaction entre apparentés est un regroupement « d'entreprises » sous contrôle commun, nous comprenons que les principes prévus au paragraphe 3840.44 ne s'appliqueraient pas pour un regroupement de deux sociétés sous contrôle commun ou apparentées si une des deux entités se regroupant n'exploite pas une entreprise (par exemple parce qu'elle est inopérante au moment où elle se regroupe). On voit cette situation en pratique par exemple lorsque deux entités apparentées fusionnent afin que l'une d'elle exploite une entreprise et génère des bénéfices imposables puisse utiliser les pertes fiscales inutilisées d'une entité sous contrôle commun devenue inopérante.

iii) Contrôle commun

Tel que proposé par le CNC, nous sommes d'avis que le terme « contrôle commun » doit être clarifié. De notre avis, il doit être clarifié si ce concept doit être interprété sur la base du concept de contrôle prévu dans le chapitre 1591, « Filiales », ce qui ferait en sorte que deux sociétés seraient uniquement considérées sous contrôle commun lorsqu'elles sont contrôlées par une seule et même partie, ou si cette expression vise également des opérations de regroupement qui n'entraînent aucun changement dans l'actionnariat des entreprises regroupées (par exemple dans un scénario où les deux entreprises regroupées sont détenues – avant et après la restructuration – à parts égales par trois actionnaires).

Par ailleurs, il devrait être clarifié si les fusions verticales mère-fille représentent des regroupements d'entreprises sous contrôle commun, si ultimement celles-ci étaient contrôlées directement et indirectement par le même actionnaire. De notre avis, ces opérations représentent uniquement un simple changement de forme légale de détention par la société mère des actifs et des passifs de la filiale qu'elle contrôlait déjà via la détention des actions de la filiale et les exigences du chapitre 1601, « États financiers consolidés », devraient s'appliquer à une telle réorganisation.

- b) Selon vous, l'application du chapitre 3840 pose-t-elle d'autres problèmes en ce qui concerne les regroupements d'entreprises apparentées sur lesquels le CNC devrait se pencher dans le cadre d'un projet ultérieur? Dans l'affirmative, veuillez motiver votre réponse.**

Voir nos commentaires en réponse à la question 3a).

### **Traitement comptable des instruments financiers acquis dans le cadre d'un regroupement d'entreprises sous contrôle commun**

- 4. Le CNC propose de modifier le chapitre 3840 afin d'exiger que les actifs financiers acquis et les passifs financiers pris en charge dans une opération de cession d'une entreprise entre deux entreprises sous contrôle commun soient évalués selon les principes du paragraphe 3840.44. Appuyez-vous cette proposition? Dans la négative, pourquoi?**

Oui, nous sommes en accord avec cette proposition. Nous proposons toutefois qu'il soit précisé que les instruments financiers créés ou émis dans le cadre de cette opération restent comptabilisés en conformité avec les principes du chapitre 3856.

### **Dispositions transitoires**

- 5. Le CNC propose que les modifications s'appliquent pour les exercices ouverts à compter du 1er janvier 2025 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 2025 et que l'application anticipée devrait être permise? Dans la négative, pourquoi?**

Oui, nous sommes en 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?**

Nous sommes en accord avec l'approche prospective proposée par le CNC. Toutefois, nous suggérons également de permettre que ces modifications soient appliquées de façon rétrospective, au choix de l'entité. La façon d'appliquer rétrospectivement les modifications pourrait à notre avis prendre une forme similaire à l'exemption facultative sur les regroupements d'entreprises prévue au chapitre 1500, « Application initiale des normes », (se référer au paragraphe 1500.10). Cela permettrait à une entité de retraiter conformément aux nouvelles exigences les regroupements d'entreprises sous contrôle commun survenus à compter d'une date qu'elle pourrait elle-même déterminer.

January 31, 2023

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Accounting Standards Board  
277 Wellington Street West  
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**Subject: Exposure Draft – Improvements to Accounting for Common Control  
Combinations (November 2022)**

Ms. Christopoulos:

Raymond Chabot Grant Thornton LLP (RCGT) would like to thank you for the opportunity to comment on the Exposure Draft published by the Accounting Standards Board (AcSB), Improvements to Accounting for Common Control Combinations.

We support the AcSB's initiative to improve accounting for common control combinations in accordance with Accounting Standards for Private Enterprises (ASPE). Overall, we agree with the issues identified by the AcSB in the Exposure Draft and the need for clarifications. However, we would like to bring to your attention significant concerns about the proposed amendments. We are especially concerned about the hasty addition of clarifications to RELATED PARTY TRANSACTIONS, paragraph 3840.44, without first specifying the transactions covered by this paragraph and by proposed amendments in the Exposure Draft. Although the Exposure Draft aims to improve accounting for common control combinations—a term that also needs to be defined or clarified—paragraph 3840.44 only addresses transactions involving a business transferred between two enterprises under common control. Such transactions represent a tiny proportion of the combination transactions between entities under common control which are conducted by private enterprises.

This confusion about the types of transactions covered by the proposed amendments makes it difficult for us to identify the impact of certain proposals. Our comments on the specific questions in the Exposure Draft and general comments on issues not specifically addressed in the Exposure Draft are in Appendix A.

If you would like to discuss our comments or concerns, please contact Stéphane Landry, CPA ([landry.stephane@rcgt.com](mailto:landry.stephane@rcgt.com)) or Stéphanie Fournier, CPA ([fournier.stephanie@rcgt.com](mailto:fournier.stephanie@rcgt.com)).

Sincerely,

*Raymond Chabot Brant Thornton S.E. N.C. R. L.*

Stéphane Landry, CPA, Partner  
Stéphanie Fournier, CPA, Senior Manager

## APPENDIX A – RESPONSES TO THE EXPOSURE DRAFT QUESTIONS

### Accounting for combinations under common control

1. The AcSB proposes removing the reference to “exchange amount” in paragraph 3840.44(a) so that business combinations under common control meeting specified criteria would be subject to the guidance in Section 1582. Do you agree with the proposal to remove the reference to the exchange amount in paragraph 3840.44(a)? (See proposed paragraph 3840.44(a) and the consequential amendments.) If not, why not and what alternatives should the Board consider?

Since the principles for measurement at the carrying amount or exchange amount are inherent in the measurement of related party transactions accounted for in accordance with Section 3840, we would have preferred that paragraph 3840.44(a) retain the reference to “exchange amount” (by referring to paragraph 3840.29), to be consistent with the measurement principles for related party transactions in Section 3840. We would also have liked paragraph 3840.44(a) to rather indicate the specific requirements in Section 1582 which must be applied when such a combination is to be measured at the exchange amount under Section 3840.

Our understanding of the proposal that the transaction be accounted for in accordance with the requirements in Section 1582 is that an entity undertaking such a transaction should apply all the requirements in Section 1582, including the identification of an acquirer, which does not seem appropriate for a transaction between two companies under common control. Applying all the requirements in Section 1582 would also entail an obligation to measure any consideration transferred in such a transaction at fair value.

However, after reviewing the proposed consequential amendment to paragraph 3840.7A, we understand that the AcSB’s intention may not have been to impose that all the requirements of Section 1582 be applied when accounting for such a transaction. Indeed, the proposed amendment to paragraph 3840.7A, as we understand it, only pertains to financial assets “acquired” and financial liabilities “assumed” in a transaction covered by paragraph 3840.44, which implies that **(1)** only the assets and liabilities of the transferred business, whether financial or non-financial, would be initially recognized and measured in accordance with the requirements of Section 1582, and that **(2)** the financial assets “originated” and financial liabilities “issued” as consideration should be initially measured in accordance with the requirements of FINANCIAL INSTRUMENTS, Section 3856 relating to the initial measurement of financial instruments originated or issued in a related party transaction. Several forms of consideration may be issued for this type of transaction, including non-interest-bearing notes payable (or notes payable at off-market terms),

retractable shares issued in a tax planning arrangement and contingent consideration.

If the only purpose of the proposed amendments to paragraph 3840.44(a) was to clarify that the measurement of the assets acquired and liabilities assumed from the transferred business in such a transaction had to be consistent with the measurement principles in Section 1582, then we agree with the objective of the proposed amendments. However, to achieve this objective, we suggest that changes be made to paragraph 3840.44(a), stipulating that:

- The recognition and measurement principles for assets acquired, liabilities assumed and goodwill (or a gain on a business combination resulting from a bargain purchase, if any) in paragraphs 1582.11-.38 (including the corresponding paragraphs in the Section's Appendix) shall be applied.
- Section 3856 must be applied for the initial recognition and measurement of financial instruments issued as consideration, except for financial instruments outside the scope described in paragraph 3856.03. This proposal would ensure consistency in the method used for the initial and subsequent measurement of any financial instruments of the combined entity which were originated or issued between related parties, regardless of the nature of the transaction that gave rise to their recognition.

We therefore propose amending paragraph 3840.44(a) as follows (proposed changes to the current wording of this paragraph are underlined or crossed out):

*.44 Except as specified in SUBSIDIARIES, paragraph 1591.26A(a), a business transferred between two enterprises under common control is accounted for as follows:*

*(a) When the criteria in paragraph 3840.29 are met and the transaction is measured at the exchange amount, ~~the business combination is accounted for in accordance with BUSINESS COMBINATIONS, Section 1582~~ the related party accounting for the transferred business shall recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree as well as goodwill (or a gain from a bargain purchase, if any) in accordance with BUSINESS COMBINATIONS, paragraphs 1582.11-.38. Financial assets originated and financial liabilities issued as consideration shall be measured in accordance with FINANCIAL INSTRUMENTS, Section 3856.*

*[...]*

In our opinion, the scope exception in paragraph 1582.02(b) should also be amended, as follows, to ensure consistency (proposed additions to the current wording of this paragraph are underlined):

*.02 This Section applies to a transaction or other event that meets the definition of a business combination. This Section does not apply to:*

*[...]*

*(b) a combination between entities or businesses under common control, except for paragraphs .11-.38, which apply to the initial recognition and measurement of assets acquired and liabilities assumed when the business combination under common control is measured at the exchange amount (see paragraph 3840.44(a)).*

*[...]*

2. The AcSB proposes an option in paragraph 3840.44(b) either to retrospectively restate all prior periods when carrying values are used to account for a combination or to prospectively account for the transaction. The Board also proposes that enterprises only restate comparative information for the years during which the combining entities were under common control.

The concerns we discuss in Question 3 below address the confusion in practice surrounding the scope of the transactions subject to the requirements of paragraph 3840.44, including whether or not a combination in the form of an amalgamation between two enterprises under common control is an example of a transaction covered by this paragraph. Some of our comments in response to Question 2 are closely related to this confusion.

- (a) Do you agree with the proposal in paragraph 3840.44(b) either to retrospectively restate all prior periods or to prospectively account for these combinations? If not, why not and what alternatives should the Board consider?

We agree with the proposal to provide relief or the choice to restate or not the information prior to the combination date. However, we think the application of these two options should be clarified. The following paragraphs present two issues we believe are important to clarify for an entity that chooses to account for the combination prospectively.

Equity line item where the difference arising from the accounting for the combination should be recognized

If an entity elects to account for the combination on a prospective basis, we understand that the assets acquired and liabilities assumed from the transferred business will be recognized in the financial statements of the acquirer only from the date on which they were legally acquired. If the amount of the consideration issued for the acquisition differs from the net carrying amount of the recognized assets and liabilities, a difference will result.

Currently, the proposed amendments to paragraph 3840.44(b)(i) do not specify the line item where any difference arising from the accounting for such a combination should be recognized. The other requirements in Section 3840 to account for related party transactions measured at the carrying amount lead us to conclude that this difference should be recognized in equity. However, if no guidance is provided, some entities may refer to the principles in paragraph 3840.17 and recognize the difference in contributed surplus if it is a credit. Other entities may decide that it would make more sense to recognize the credit difference as an increase in retained earnings to ensure the retained earnings balance is the same regardless of whether or not the comparative information has been restated.

To address this concern, we suggest that the proposed amendments to paragraph 3840.44(b)(i) be clarified to include a requirement regarding the equity line item where the difference arising from the accounting for the transaction should be recognized. The clarification should specify that, “any debit or credit difference arising from the transaction shall be recognized in retained earnings.” In our opinion, the only consequence of electing to apply paragraph 3840.44(b)(i) or (ii) should be the reporting of information presented for comparative purposes and for the income statement of the year of the combination (for the period prior to the transaction date); this choice should not result in any difference in the balance sheet of the combined enterprise.

Also, to avoid any confusion, we suggest that a statement be added to paragraph 3840.17 that the requirements in paragraph 3840.17 do not apply to the combinations accounted for in accordance with paragraph 3840.44(b)(i).

Our response to question 2(b) below raises a similar concern about the recognition of any difference arising from a combination accounted for in accordance with paragraph 3840.44(b) if an entity chooses to restate comparative information for the periods in which the two combining entities were under common control.

### Amalgamations of companies under common control

Our response to question 3(a) below discusses the confusion in practice as to whether a horizontal amalgamation of two companies under common control is a transaction to which the requirements of paragraph 3840.44 apply. If this is the case, we would like the AcSB to illustrate, in the form of an example, how the prospective treatment option applies in an amalgamation of two companies under common control. In this context, where the two businesses are combined with no acquirer or acquiree, would it be appropriate to interpret that no comparative information prior to the transaction date would need to be presented in the financial statements of the combined business?

**(b) Do you agree with the proposal in paragraph 3840.44(b) that enterprises only restate comparative information for the years during which the combining entities were under common control? If not, why not and what alternatives should the Board consider? (See proposed paragraph 3840.44(b).)**

While we support retaining the option to restate comparative information, we think the AcSB should also allow the restatement of comparative information beyond the periods in which the combining entities became under common control. This would make it possible for the presentation of comparative information to remain consistent with the method currently used by private enterprises for such transactions.

The approach proposed in the Exposure Draft allows for comparative information (mainly relating to operating results) to be reflected essentially by adopting the corporate group's consolidated perspective, i.e. presenting the assets, liabilities, revenues and expenses of the combined entities only from the time they became under common control. We believe this approach is appropriate as long as it meets the financial information needs of the financial statements' primary users.

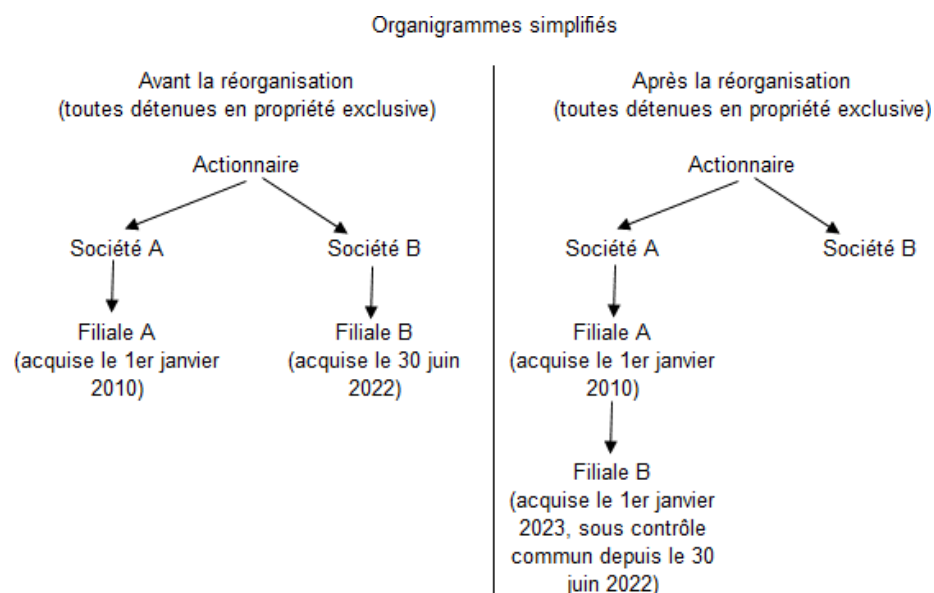
That said, in our experience, in many circumstances, the financial statements' primary users (such as creditors) wanted the financial statements of the combined enterprise to present the results of the two combined businesses under common control for the entire fiscal year and for all prior periods presented, regardless of when the two businesses became under common control. From the users' perspective, such an approach better reflects the operating results of the two combined enterprises regardless of any change in ownership (for example, a change of controlling shareholder in one of the two businesses) and, in our opinion, appears consistent with the principles of understandability and comparability set out in FINANCIAL STATEMENT CONCEPTS, paragraphs 1000.16 and 1000.19-.20, respectively.

Therefore, we believe that two options for restating comparative information should be permitted.

Similarly, we propose that entities be given a choice as to which “carrying amount” to use in accounting for a combination under paragraph 3840.44(b), depending on which amount provides the financial information that best meets the needs of the financial statements’ primary users. In our view, entities should be able to use one of the two following “carrying amounts”:

- The carrying amount of the assets and liabilities in the financial statements of the transferred business at the time of the transfer;
- The carrying amount of the assets and liabilities of the transferred business in the transferor’s consolidated accounts at the time of the transfer (or the carrying amount that would have been in the consolidated accounts had the transferor prepared consolidated financial statements at that date).

The following example illustrates our proposal:



On January 1, 2023, Company A, which has a December 31, 2023 year end, acquires Subsidiary B from Company B, a company under common control. Company B acquired control of Subsidiary B on June 30, 2022 by entering into a business combination with an unrelated party. Therefore, Company A and Subsidiary B have been under common control only since June 30, 2022.

In this context, we propose that Subsidiary A should have the following options:

- Recognize Subsidiary B's assets and liabilities at the carrying amount in Subsidiary B's financial statements, with an additional choice between:
  - Recognizing the assets, liabilities, revenues and expenses of Subsidiary B only starting from January 1, 2023 (the date on which Subsidiary A acquired Subsidiary B) without restating its comparative information to include the assets, liabilities, revenues and expenses of Subsidiary B for the year ended December 31, 2022;
  - Restating its comparative information to include the assets, liabilities, revenues and expenses of Subsidiary B for the entire year ended December 31, 2022, even if Subsidiary B only became a company under common control on June 30, 2022.
- Recognize Subsidiary B's assets and liabilities at the carrying amount in Company B's consolidated financial statements (or at the carrying amount they would have been in Company B's consolidated financial statements if Company B had prepared such consolidated financial statements), with an additional choice between:
  - Recognizing the assets, liabilities, revenues and expenses of Subsidiary B only starting from January 1, 2023, without restating its comparative information to include the assets, liabilities, revenues and expenses of Subsidiary B for the year ended December 31, 2022;
  - Restating its comparative information to include the assets, liabilities, revenues and expenses of Subsidiary B for the period from July 1, 2022 to December 31, 2022, i.e. only from the time Subsidiary B became a company under common control.

3. The AcSB heard from its Private Enterprise Advisory Committee that additional guidance regarding business combinations between related entities that are not under common control and defining common control may be helpful in addressing application challenges. The Board recognizes including these issues may require a larger project that could delay addressing high-priority items. Therefore, the Board intends to continue research on other issues in Section 3840 and will consider some or all these in subsequent proposals.

- (a) Do you think that additional guidance regarding business combinations between related companies that are not under common control is needed to address application challenges? Why or why not?

Yes.

First, we would like the AcSB to note that significant confusion currently exists about the types of transactions covered by the scope of paragraph 3840.44. At the moment, this paragraph refers only to “a business transferred between two enterprises under common control.” However, the common control combinations or related party combinations that we see in practice encompass many other types of transactions, including transfers of businesses between two enterprises under common control. Some of the most common transactions are vertical amalgamations (parent-subsidiary), horizontal amalgamations (companies under common control, joint control or common significant influence) and liquidations.

We suggest that the scope of paragraph 3840.44 be reviewed first, to clarify the types of transactions subject to these requirements. The title of this Exposure Draft, “Improvements to Accounting for Common Control Combinations,” contributes to this confusion, since the term “common control combinations” encompasses situations that seem much broader than “a business transferred between two enterprises under common control”, such as the horizontal amalgamations that we commonly see in practice.

In this context, if the requirements in paragraph 3840.44 are meant to apply to all common control combinations, we believe it is important that the AcSB change the terminology used in paragraph 3840.44 (“common control combinations” or “business combinations under common control” rather than “a business transferred between two enterprises under common control”) and clarify what a business combination under common control is. In our opinion, three terms in this expression require clarification (with definitions or illustrative examples): “combination,” “*business*” and “common control.”

i) Combination

The AcSB should clarify that paragraph 3840.44 applies to all transactions resulting in a common control combination, regardless of the legal process used to effect the combination, e.g. an acquisition, an amalgamation or a liquidation.

ii) *Business*

As we understand it, the word “business” used in the term “business combination under common control” refers to what is transferred or combined. In our opinion, this is confusing because it is unclear whether it refers to the concept of a business as defined in Section 1582 or to the broader concept of a legal entity. In light of the amendments to paragraph 3840.44(a), it is our understanding that “business” is intended to refer to the concept of a business as defined in Section 1582 (i.e. “an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly [...]”) because the paragraph specifies that the transaction is accounted for in accordance with this section.

If the intention is that the concept of a business as defined in Section 1582 be used to determine whether a related party transaction is a “business combination under common control”, it is our understanding that the principles in paragraph 3840.44 would not apply to a combination of two companies under common control or two related companies if one of the two combining entities does not carry on a business (for example, because it is inoperative at the time of combination). This situation is seen in practice, e.g. when two related entities amalgamate so that one operates a business and generates taxable income to benefit from the unused tax losses of the other entity under common control that has become inoperative.

iii) Common control

As proposed by the AcSB, we believe that the term “common control” requires clarification. In our view, it needs to be clarified whether “common control” is to be interpreted based on the concept of control in SUBSIDIARIES, Section 1591, which would result in two companies being considered under common control only when they are controlled by a single party, or whether the term also encompasses combination transactions that do not result in any change in the shareholdings of the combined businesses (e.g. in a scenario where the two combined businesses are equally owned by the same three shareholders before and after the reorganization).

The AcSB should also clarify whether vertical amalgamations (parent-subsidary) are common control combinations, if ultimately they were already directly and indirectly controlled by the same shareholder. In our opinion, these transactions are a simple change in the legal form of the parent company's ownership of the subsidiary's assets and liabilities, which the parent company already controlled through ownership of the subsidiary's shares, and the requirements of CONSOLIDATED FINANCIAL STATEMENTS, Section 1601 should apply to such a reorganization.

**(b) Are there any other issues regarding related party combinations in Section 3840 that you think the AcSB needs to address in subsequent proposals and why?**

See the comments in our response to question 3(a).

**Accounting for financial instruments acquired in a combination under common control**

**4. The AcSB proposes to amend Section 3840 to require financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control to be measured using the principles in paragraph 3840.44. Do you agree with the proposal? If not, why not?**

Yes, we agree with the proposal. However, we suggest it be specified that financial instruments originated or issued in this transaction continue to be accounted for in accordance with the principles in Section 3856.

**Transition**

**5. The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2025, 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, 2025, with earlier application permitted? If not, why not?**

Yes, we agree with this 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?**

We agree with the AcSB's proposed prospective approach. However, we also suggest that entities be given the option to apply these amendments retrospectively if they wish. In our opinion, amendments could be applied retrospectively in a way similar to the optional exemption for business combinations in FIRST-TIME ADOPTION, Section 1500 (see paragraph 1500.10). This would allow an entity to restate, in accordance with the new requirements, common control combinations that occurred on or after a date determined by the entity itself.

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

January 31, 2023

Dear 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 November 2022 Improvements to 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 removing the reference to "exchange amount" in paragraph 3840.44(a) so that business combinations under common control meeting specified criteria would be subject to the guidance in Section 1582. Do you agree with the proposal to remove the reference to the exchange amount in paragraph 3840.44(a)? (See proposed paragraph 3840.44(a) and the consequential amendments.) If not, why not and what alternatives should the Board consider?

*Yes, we agree with the proposal to remove the reference to the exchange amount in paragraph 3840.44(a).*

2. The AcSB proposes an option in paragraph 3840.44(b) either to retrospectively restate all prior periods when carrying values are used to account for a combination or to prospectively account for the transaction. The Board also proposes that enterprises only restate comparative information for the years during which the combining entities were under common control.

- (a) Do you agree with the proposal in paragraph 3840.44(b) either to retrospectively restate all prior periods or to prospectively account for these combinations? If not, why not and what alternatives should the Board consider?

*Yes, we agree with the proposal in paragraph 3840.44(b) either to retrospectively restate all prior periods or to prospectively account for these combinations.*

*Furthermore, we suggest that paragraph 3840.44(b) be clarified that this choice is available for each combination (instead of for all combinations), similar to the wording used in paragraph 1582.20.*

- (b) Do you agree with the proposal in paragraph 3840.44(b) that enterprises only restate comparative information for the years during which the combining entities were under common control? If not, why not and what alternatives should the Board consider?

*Yes, we agree with the proposal in paragraph 3840.44(b) that enterprises only restate comparative information for the years during which the combining entities were under common control.*

3. The AcSB heard from its Private Enterprise Advisory Committee that additional guidance regarding business combinations between related entities that are not under common control and defining common control may be helpful in addressing application challenges. The Board recognizes including these issues may require a larger project that could delay addressing high-priority items. Therefore, the Board intends to continue research on other issues in Section 3840 and will consider some or all these in subsequent proposals.

- (a) Do you think that additional guidance regarding business combinations between related companies that are not under common control is needed to address application challenges? Why or why not?

*Yes, we think that additional guidance regarding business combinations between related companies that are not under common control is needed to address application challenges.*

*Application challenges may arise from the use of the term "control", which is defined by paragraph 1591.03(b) to be the "continuing power to determine [an enterprise's] strategic operating, investing and financing policies without the co-operation of others." We also note that the AcSB previously opted to not provide any guidance on unit of account for related parties, for example, as described in the Basis for Conclusions of Retractable or Mandatorily Redeemable Shares Issued in a Tax Planning Arrangement.*

*Consider a scenario in which a corporation (OpCo), which constituted a business, is owned by two related individuals (say, each shareholder owns 50% of each corporation). The two shareholders then set up a new corporation (NewCo) with the same ownership proportion as OpCo and transfer the assets and liabilities that constituted the business of OpCo to NewCo. However, the business of OpCo was not transferred between enterprises under common control because no single shareholder can make strategic decisions without the co-operation of others. As a result, this fact pattern does not fall within the scope of paragraph 3840.44. On the other hand, there is no substantive change in the ownership of the business of OpCo as described in paragraph 3840.35 (which discusses unrelated parties having acquired or given up at least 20 percent of the total equity ownership interests). Therefore, it is unclear as to whether this combination is intended to be accounted for using Section 1582 or Section 3840.*

*As an extension of the above scenario, there is also a similar issue when the ownership structure involves non-related parties. For example, a business held in a corporation may be owned by 20 unrelated individuals (say, each shareholder owns 5% of the corporation). The business may be transferred while the ownership structure remained unchanged. The AcSB may consider providing additional guidance in future projects.*

- (b) Are there any other issues regarding related party combinations in Section 3840 that you think the AcSB needs to address in subsequent proposals and why?

*We raise several issues that may be addressed in this proposal or subsequent proposals.*

*To start, we note that the CPA Canada publication, ASPE Briefing – Amalgamations of Wholly-owned Enterprises (the “ASPE Briefing”), is used extensively in practice for fact patterns that are in scope of this publication or for other fact patterns by analogy. Consider a scenario in which a shareholder wholly owns an investment holding company (HoldCo), which does not constitute a business and which wholly owns an operating company (OpCo). OpCo was acquired from a non-related party and constitutes a business.*

*Example 1 – If OpCo is liquidated into HoldCo*

*Suppose that OpCo ceases operations and is liquidated into HoldCo. As a result, HoldCo assumes the net assets of OpCo, which constitute a business.*

*First, if HoldCo chooses to consolidate its subsidiaries, then it is unclear as to whether or not there is a “transfer” of business (and therefore, whether paragraph 3840.44 applies) because HoldCo’s consolidated financial statements already reflects the business of OpCo that is controlled by HoldCo.*

*Second, because OpCo no longer exists after its liquidation and is required to distribute its net assets to HoldCo, HoldCo would be required to account for the assumption of the net assets of OpCo in HoldCo’s standalone accounts. The ASPE Briefing suggests that “consolidation-like” adjustments are required, which would cause the assumption of OpCo net assets to be recorded at the carrying amounts in the accounts of HoldCo. If OpCo did not apply push-down accounting (as described in Section 1625, Comprehensive revaluation of assets and liabilities) and if this liquidation is considered a “transfer” of the business of OpCo, then the guidance in the ASPE Briefing would conflict with that of paragraph 3840.44(b), which requires HoldCo to record the assumption of net assets of OpCo at the carrying amount in the balance sheet of OpCo.*

*Example 2 – If HoldCo and OpCo amalgamated*

*Instead of a liquidation, suppose that HoldCo and OpCo amalgamated to form a new amalgamated entity (AmalCo). As a result, AmalCo assumes the net assets of HoldCo and OpCo.*

*In addition to the issues raised under Example 1 above, if HoldCo also ceases to legally exist, the accounting for HoldCo’s net assets would not be in scope of paragraph 3840.44(b) because HoldCo’s net assets do not constitute a business. However, the ASPE Briefing suggests that the financial statements of AmalCo be prepared in the same manner as if HoldCo was consolidating OpCo for all prior periods, including the presentation of consolidated financial information of HoldCo and OpCo as AmalCo’s comparative information even before the amalgamation. This accounting treatment is not explicitly addressed in Section 3840 or elsewhere in ASPE.*

Other comments

*If HoldCo accounts for its subsidiaries using the cost method, there may be scenarios in which relevant information about carrying amounts reported in the accounts of OpCo may not be readily available or OpCo's accounts may not have been prepared in accordance with ASPE. In such a case, the AcSB may consider whether any desired accounting is too onerous for preparers.*

*The above discussion illustrates that there are issues in paragraph 3840.44 and, in general, Section 3840 with (1) scoping, (2) use of terms such as "transfer", and (3) references and use of carrying amounts (such as identification of the enterprise of which the carrying amounts should be used). The AcSB may consider performing further research and consider whether further practical expedients or policy choices are necessary.*

4. The AcSB proposes to amend Section 3840 to require financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control to be measured using the principles in paragraph 3840.44. Do you agree with the proposal? If not, why not?

*Yes, we agree with the proposal to require financial assets acquired or financial liabilities assumed in a transaction when a business is transferred between two enterprises under common control to be measured using the principles in paragraph 3840.44.*

5. The AcSB proposes that the amendments be effective for fiscal years beginning on or after January 1, 2025, 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, 2025, with earlier application permitted? If not, why not?

*Yes, we agree that the proposed amendments should be applied for annual periods beginning on or after January 1, 2025, with earlier application permitted.*

- (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 prospectively to new combinations entered into from the beginning of the fiscal year in which the amendments are first applied.*

*Further, we believe that there should be an option to apply the proposed amendments retrospectively to encourage more consistent application of the proposed amendments for enterprises that are willing and able to do so.*



We would be pleased to discuss our comments with members of the AcSB or its staff. If you wish to do so, please contact Adam Rybinski, Associate Partner, Professional Practice, at 416-943-2711 (Adam.C.Rybinski@ca.ey.com) or Laney Doyle, Professional Practice Director, at 416-943-3583 (Laney.Doyle@ca.ey.com).

Yours sincerely,  
ERNST & YOUNG LLP

A handwritten signature in black ink that reads 'Ernst &amp; Young LLP'. The signature is written in a cursive, flowing style.

Chartered Professional Accountants  
Licensed Public Accountants