

Related Party Transactions – Background Information and Basis for Conclusions, Section 3840

Foreword

In December 2025, the Accounting Standards Board (AcSB) amended RELATED PARTY TRANSACTIONS, Section 3840 in Part II of the CPA Canada Handbook – Accounting. The AcSB has approved for publication the contents of this document, setting out its rationale for these amendments.

Background Information and Basis for Conclusions documents are sources of generally accepted accounting principles, as described in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100 in Part II of the Handbook. These documents are intended to help readers understand how the AcSB reached its conclusions, but they do not include explanations of requirements or guidance on the application of the relevant Section or Accounting Guideline.

December 2025

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INTRODUCTION

- 1 This document summarizes considerations that were deemed significant by members of the AcSB in reaching their conclusions to amend RELATED PARTY TRANSACTIONS, Section 3840 in Part II of the Handbook. This document sets out the reasons the Board undertook to develop the amendments, the process of research and deliberation, the key decisions made and the principal reasons for adopting the positions taken and rejecting others.
- 2 Nothing in this document overrides the requirements of the Handbook. However, the discussion may help readers understand how the AcSB reached its conclusions in developing the Section and the Board's intent with respect to interpretation and application of the amendments.
- 3 In developing these amendments, the AcSB sought the advice of its Private Enterprise Advisory Committee and its Medium and Small Practitioners Advisory Committee. The Private Enterprise Advisory Committee includes financial statement users, auditors and preparers with a range of backgrounds and experience from across Canada. Committee members include representatives from organizations of differing sizes and in a variety of industries. The Medium and Small Practitioners Advisory Committee includes auditors and practitioners from medium and smaller firms across Canada.

BACKGROUND

Accounting for common control combinations prospectively

- 4 In September 2023, the AcSB issued amendments to Section 3840 (the 2023 Related Party Transaction amendments). The amendments allowed an option in paragraph 3840.44(b) to either:

- (a) retrospectively restate prior periods when carrying amounts are used to account for a combination involving a business under common control; or
- (b) prospectively account for these transactions from the date the transfer occurred.

The amendments are effective for fiscal years beginning on or after January 1, 2025, with earlier application permitted.

- 5 Since issuing the amendments, the AcSB received an application question regarding the comparative figures to be presented, if any, when a transaction is accounted for prospectively from the date the transfer occurred in accordance with paragraph 3840.44(b)(i).
- 6 The AcSB considered the question using its Guidance Framework. The Private Enterprise Advisory Committee informed the Board of differing views in practice. One view is that an enterprise must identify an acquirer and report the comparative figures of the acquiring enterprise. Some Committee members preferred this view because there would have been business activities prior to the combination date that would be useful to report.
- 7 Another view is that an enterprise should apply professional judgment to consider the information needs of its financial statement users when deciding which comparative figures to present, and, in some scenarios, there could be no comparative figures. Some Committee members preferred this view because it is not always clear who an acquirer is in a combination between enterprises under common control. In addition, in some scenarios, the comparative information of one of the combining enterprises may not be available or complete.
- 8 Other Committee members thought that both views are supportable, and a different conclusion might be reached depending on the scenario and the needs of the financial statement users.
- 9 Given the diverse views, the Committee recommended that the AcSB issue guidance to clarify the application of paragraph 3840.44(b)(i).
- 10 The AcSB discussed the Committee's feedback and decided that the application question met the criteria in the Guidance Framework for further consideration as to whether guidance was needed.
- 11 In addition to the Committee's feedback, the AcSB noted that the current language in paragraph 3840.44(b) could infer that determining an acquirer is required when carrying values are used to account for the transaction prospectively from the date that the combination occurred. The Board considered that, in some scenarios, identifying an acquirer could be complex or onerous.
- 12 Therefore, the AcSB decided that authoritative guidance was needed to amend the language in the standard and decided to develop an exposure draft for a narrow-scope amendment. The Board discussed proposals that would be narrow in scope to address this application question only. Although the Board is aware of other questions regarding the application of Section 3840, it decided to address this issue only as part of these proposals, to provide guidance in a timely manner.
- 13 The AcSB considered various options to address the application question. One option was to account for the combined enterprise as a new enterprise from the transaction date. As a new enterprise, no comparative information would be reported in the period in which the combination occurs. The Board discussed that this would provide a single way of accounting for combinations under common control when the prospective option is selected. However, the Board reflected on the Committee's feedback that, in some cases, historical information of one combining enterprise could be useful to financial statement users and this option would not allow for that.
- 14 Another option the AcSB considered was to provide a choice either to account for the combined enterprise as a new enterprise from the transaction date with no comparative information or to account for the transaction as a continuation of one of the combining enterprises, which would allow comparative information of one of the combining enterprises in the period in which the combination occurs.
- 15 The AcSB acknowledged that this choice would allow private enterprises to account for the combination in a way that is useful to their financial statement users and, therefore, decided to propose this option.
- 16 The AcSB also noted that when an enterprise chooses to account for the combination as a continuation of one of the combining enterprises, an enterprise would consider the information needs of users and present the comparatives of the combining enterprise that results in decision-useful information.

Exposure Draft, "Accounting for Common Control Combinations"

- 17 In December 2024 the AcSB issued the Exposure Draft, "Accounting for Common Control Combinations." The Board received seven comment letters. Respondents generally supported the proposed amendments, suggesting minor changes to certain aspects. The specific issues addressed in this project, including the comments received on the Exposure Draft and any changes made in response to those comments, are highlighted in the subsequent sections.

Out-of-scope feedback

- 18 Respondents also provided suggestions for other topics that the AcSB may consider for future standards-setting projects. The Board recognizes that the accounting for common control transactions is challenging, and it values all the feedback it has received on the topic. To provide timely and helpful guidance, the Board has retained the scope as exposed. However, the out-of-scope items will be considered as part of the Board's future priorities.

EFFECTS ANALYSIS

- 19 The amendments provide an enterprise with a choice to account for the combination in a way that is useful to its financial statement users when carrying amounts are used to account for a combination involving a business under common control. In addition to considering financial statement user needs, an enterprise may consider other factors such as the availability of information and the cost of preparing when choosing how to account for the combination.
- 20 When an enterprise chooses to account for a combination prospectively from the combination date these amendments allow it to be accounted for either as a new enterprise or as a continuation of one of the combining enterprises. With these amendments, the option to account for the combination retrospectively for the entire period in which the combination occurred and for all prior periods remains available.
- 21 The amendments include changes to the language in paragraph 3840.44(b) to remove references to the acquiring enterprise and other language that could infer that identifying an acquiring enterprise is required. The AcSB thinks these amendments remove ambiguity that this exercise is required.
- 22 To be consistent with the language proposed in paragraph 3840.44(b) and the existing wording in the Decision Tree in Section 3840, the AcSB has also proposed an amendment to paragraph 3840.44. However, respondents generally disagreed with using the term "business combination" in the proposed amendments to the language in paragraph 3840.44, as the definition of a "business combination" in BUSINESS COMBINATIONS, paragraph 1582.03(e), refers to the existence of an acquirer. Respondents suggested alternative language to support the Board's intention to remove references that may infer identifying an acquiring enterprise is required or that Business Combination accounting is required. In response to this feedback, the Board amended the language in paragraph 3840.44, retaining the term "business", because determining whether a transaction is within the scope of paragraph 3840.44 requires determining whether the transaction is a transfer of a business or a transfer of assets and liabilities. In addition, the Board amended the language describing transactions that are out of scope in paragraph 1582.02(b) and FINANCIAL INSTRUMENTS, paragraph 3856.04(c), to align with the language in paragraph 3840.44.

DISCLOSURE

- 23 The Exposure Draft did not propose new or amended disclosure requirements related to paragraph 3840.44. However, respondents suggested that a disclosure requirement outlining the option an enterprise has chosen when applying paragraph 3840.44(b) would be helpful. Therefore, when finalizing the amendments, the AcSB added a disclosure requirement in paragraph 3840.51(h) requiring an enterprise to disclose the option chosen.

EFFECTIVE DATE AND TRANSITION

- 24 The Exposure Draft proposed an effective date of January 1, 2026, with earlier application permitted. Although this effective date is shortly after the issuance date of December 1, 2025, the AcSB noted that enterprises with combinations involving a business under common control may want to apply the amendments as soon as they are available, as they are not onerous and will clarify the application of the current guidance. Respondents to the Exposure Draft agreed with the proposed effective date. Consequently, the Board decided that the amendments will be effective for fiscal years beginning on or after January 1, 2026, with earlier application permitted.
- 25 The Exposure Draft proposed 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. The AcSB decided on prospective application because it does not expect the amendments to change how a combination has been accounted for by those that have early adopted the 2023 Related Party Transactions amendments. In addition, the amendments impact the comparative period only in the year of a combination, which may not be presented in the financial statements in the year these amendments are applied. Therefore, the Board acknowledged there may not be a benefit to requiring retrospective or a modified retrospective application. Instead, prospective application would reduce complexity on initial application of the amendments. Respondents to the Exposure Draft agreed with prospective application. Therefore, the Board decided 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.

CONSEQUENTIAL AMENDMENTS

- 26 The amendments include consequential amendments to Sections 1582 and 3856. The rationale for these amendments is described in paragraph 22.

EXPOSURE FOR COMMENT

- 27 After deliberating feedback from the exposure draft process, the AcSB considered, as part of its due process, whether the revisions to the proposals should be exposed for comment.
- 28 The revisions have been highlighted in the relevant sections throughout this Basis for Conclusions. These revisions are clarifications based on feedback received from interested and affected parties. Other than clarifications already highlighted in this document, only minor drafting changes were made. Therefore, the AcSB decided there was no need for re-exposure.
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