SECTION PS 3430
restructuring transactions

Basis for Conclusions

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PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

.02 Restructuring activities include, but are not limited to:

(a) amalgamation of entities or operations within the government reporting entity;

(b) amalgamation of local governments;

(c) annexation or boundary alteration between neighbouring local governments;

(d) transfers of operations or programs from one entity to another; and

(e) shared service arrangements entered into by local governments in a region.

Restructurings can be initiated by the entities involved or imposed by a higher level of government through legislation or by the controlling government.

.03 This Section applies to all restructuring transactions that meet the definition in paragraph .07(g). It only applies to entities that adhere to the standards in the CPA Canada Public Sector Accounting Handbook (PSA Handbook) for their financial reporting. However, restructuring transactions addressed in this Section are not limited to those involving only entities that adhere to PSA standards.

.04 There can be more than one transferor and one recipient in a restructuring transaction. An entity can be both a transferor and a recipient if it transfers and receives assets and/or liabilities, together with related program or operating responsibilities, to/from one or more entities in a restructuring transaction. An entity may swap assets, liabilities and responsibilities with another entity in a restructuring transaction. An entity that is both a transferor and a recipient would apply guidance that is applicable to transferors to account for the assets and/or liabilities it transfers and apply guidance that is applicable to recipients to account for the assets and/or liabilities it receives in a restructuring transaction.

.05 This Section does not deal with:

(a) acquisition of a group of assets, an operation, or an entity;

(b) contribution of asset or assumption of liability; or

(c) disposal and abandonment of assets, or discontinuance of operations that is not part of a restructuring transaction.

.06 Accounting for an acquisition of an operation or an entity is addressed in ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070.

DEFINITIONS

.07 The following terms are used in this Section with the meaning specified:

(a) The **carrying amount** of an asset or a liability transferred in a restructuring transaction is the amount reported in the statement of financial position of the transferor at the restructuring date, net of valuation allowance.

(b) **Compensation** is a payment made in a restructuring transaction by a transferor to a recipient or vice versa that is not based on the fair value of the individual assets and liabilities transferred.

(c) **Consideration** is a payment made in an acquisition that is based on, but not necessarily equal to, the fair value of the individual assets and liabilities or the programs or operations acquired.

(d) The **net effect of a restructuring transaction** is the sum of:

(i) the increase in net assets or net liabilities resulting from recognition and derecognition of individual assets, and liabilities received from all transferors and transferred to all recipients; and

(ii) the amount of any compensation recognized.

It does not include restructuring-related costs or the effects of any restructuring-related events and transactions.

(e) A **recipient** is an entity that receives assets and/or liabilities, together with related program or operating responsibilities, from one or more entities in a restructuring transaction. A recipient may exist prior to the restructuring or it may be formed as a result of the restructuring.

(f) The **restructuring date** is the date the recipient obtains control of the assets and becomes obligated for the liabilities transferred in a restructuring transaction.

(g) A **restructuring transaction** is a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities without consideration based primarily on the fair value of the individual assets and liabilities transferred.

(h) A **transferor** is an entity that transfers assets and/or liabilities, together with related program or operating responsibilities, to one or more entities in a restructuring transaction. A transferor may continue or cease to exist after the restructuring.

CHARACTERISTICS OF RESTRUCTURING TRANSACTIONS

.08 The key characteristics of restructuring transactions are:

(a) their non-purchase nature;

(b) transfers of an integrated set of assets and/or liabilities that are not random or unrelated; and

(c) transfers of program or operating responsibilities related to the assets and liabilities transferred.

Non-purchase nature

.09 The absence of consideration that is primarily based on, but not necessarily equal to, the fair value of the individual assets and liabilities transferred generally reflects the non-purchase nature of restructuring transactions. This is the key distinction between a restructuring transaction and an acquisition which is similar to a purchase.

.10 Paying a reasonable consideration for net assets or controlling shares acquired in an acquisition usually involves estimating the fair value of the individual assets and liabilities transferred, and/or the fair value of a transferred program or operation that is of a business or a revenue-generating nature. How the payment in a transfer of assets and/or liabilities with related responsibilities is determined indicates whether it is consideration for an acquisition. Terms and conditions of applicable agreements and the circumstance under which the payment is made would also be taken into account in the exercise of professional judgment.

.11 Most operations or programs transferred in the public sector are of a service delivery or administrative nature. Their operating costs are likely higher than any revenue they may generate. The fair value of such programs or operations is often irrelevant for determining any payment to the transferor. Future service level and related costs, as well as future revenue of these programs or operations may be so uncertain that no reasonable or supportable assumption can be made to estimate their fair values. Consideration provided in public sector acquisitions is likely based on the fair value of the individual assets acquired and liabilities assumed rather than the fair value of the transferred programs or operations.

.12 Fair value of transferred operations or programs is only relevant in determining consideration for acquisitions in the public sector when the transferred program or operation is of a business or revenue-generating nature. The fair value amount can only be evidence of consideration for acquisitions if it meets the qualitative characteristics of representational faithfulness and verifiability. [Former paragraph PS 3430.12, amended by the Conceptual Framework, retained in Archived Pronouncements.]

.13 Acquisitions, involving consideration based on the fair value of the assets and liabilities or the operations transferred, rarely occur in the public sector. Restructuring transactions, involving no payment, nominal payment, or compensation that is not based on the fair value of the individual assets and liabilities transferred, occur more frequently.

.14 A transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities in the public sector, usually involves no or nominal payment. Depending on the nature of a restructuring transaction and its effects on the entities involved, a transferor may provide compensation that is not based on the fair value of the individual assets and liabilities transferred to a recipient and vice versa.

.15 Compensation provided in a restructuring transaction may be of a substantial amount. For example, recipients in some annexations may agree to compensate the transferor for its loss of future property tax revenue by providing a lump sum payment at the restructuring date that is equivalent to the present value of property tax revenue for an extended period based on the current tax rate and assessment. Compensation provided in a restructuring transaction may be equal to the net carrying amount of the individual assets and liabilities transferred. The total carrying amount of the individual assets transferred may be equal to the total carrying amount of the individual liabilities transferred in a restructuring transaction.

.16 An entity does not need to know the fair value of the individual assets and liabilities transferred to determine whether a transaction is an acquisition or a restructuring transaction. When the fair value of the individual assets and liabilities transferred are unknown and no effort has been made to estimate their fair value, unless there is other evidence to the contrary, this transaction is likely a restructuring transaction. The fact that the fair values are unknown indicates that any consideration that may be involved in the transaction would not be based on the fair value of the assets and liabilities transferred.

Transfers of an integrated set of assets and/or liabilities with related responsibilities

.17 The assets and liabilities transferred in a restructuring transaction are not random or isolated assets or liabilities. They are an integrated set that is somewhat complete in supporting the program or operation for which the responsibility is also transferred in the restructuring. This distinguishes a restructuring transaction from an acquisition of a group of assets or an assumption of liabilities.

.18 Assumption of program or operating responsibility previously performed by the entity that transfers the related assets and liabilities distinguishes restructuring transactions from receipts of contributions, gifts or government transfers. For example, an entity that received a building from another entity without providing consideration received a gift or a government transfer. On the other hand, an entity that received a building and the transferor's previous responsibility for delivering community programs located in that building did not receive a gift or a government transfer. This is considered a restructuring transaction.

.19 While a recipient will continue to meet the service and operational needs associated with the transferred responsibilities, it may fulfil the program and administrative responsibilities in a format that is different from the transferor. For example, services may be delivered in different locations or at a different service level subsequent to the restructuring date to achieve the objective of the restructuring, such as economies of scale, more effective and efficient service delivery and elimination of duplication.

RECOGNITION

Assets and liabilities transferred and received

.20 *Individual assets and liabilities received in a restructuring transaction should be recognized by the recipient if they meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date.* [APRIL 2018]

.21 *Individual assets and liabilities transferred in a restructuring transaction should be derecognized by the transferor if they no longer meet the definitions of assets and liabilities and applicable recognition criteria at the restructuring date.* [APRIL 2018]

.22 Assets and liabilities are defined in Chapter 8 of the Conceptual Framework. Recognition criteria and definitions of individual asset and liability items are specified in individual Sections of the PSA Handbook. [Former paragraph PS 3430.22, amended by the Conceptual Framework, retained in Archived Pronouncements.]

.23 *The increase in net assets or net liabilities resulting from recognition and derecognition of individual assets and liabilities received from all transferors and transferred to all recipients in a restructuring transaction should be recognized as revenue or as an expense.* [APRIL 2018]

.24 When a transferor continues to be involved in the individual assets and/or liabilities it transferred to a recipient subsequent to the restructuring date, it would assess the nature and extent of its continued involvement against the definitions of assets and liabilities and applicable recognition criteria to evaluate whether:

(a) derecognition of the asset and liability transferred would be appropriate; and

(b) its continued involvement gives rise to a new asset or new liability that needs to be recognized.

.25 A new asset or new liability may arise from a restructuring due to a transferor's continued involvement in the individual assets and liabilities transferred (for example, if it agrees to guarantee repayment of all or a portion of a transferred liability or leases back a portion of a transferred asset). As the new asset or new liability is not transferred, together with related program or operating responsibilities, they are not part of the restructuring transaction. They would be accounted for in accordance with individual Sections of the PSA Handbook by both the transferors and recipients.

Compensation

.26 Depending on the nature of a restructuring transaction and its effects on the entities involved, a transferor may provide some forms of compensation to a recipient and vice versa. Some compensation may depend on the occurrence of future events or transactions such as future revenue. Entities involved in such a compensation arrangement would assess the nature and terms of the compensation against individual Sections of the PSA Handbook to determine if the compensation gives rise to a liability or an asset at the restructuring date.

.27 *Compensation not dependent on the occurrence of future events or transactions should be recognized as an expense and revenue at the restructuring date, regardless of when the payment is made.* [APRIL 2018]

.28 In some annexations, a recipient may agree to compensate a transferor for its loss of future property tax revenue by making a lump sum payment at the restructuring date equivalent to the present value of, for example, 30 years' property tax revenue based on the tax rate and assessment of the year immediately before the year in which the restructuring occurs. Another recipient may make the payment annually over a 30-year period. In both cases, the present value of the 30 years' payments would be recognized by the recipient as an expense and the transferor as revenue at the restructuring date, even though the payment will be made over 30 years in the latter example.

.29 A recipient may promise to pay a transferor a fee for continuing to provide services subsequent to the restructuring date until it establishes the operation to deliver the services for which the responsibility was transferred in a restructuring transaction. Although arising from restructuring, the promise to pay is a fee for future services and not compensation for the restructuring. The recipient does not have a liability and the transferor does not have an asset until services are provided.

Restructuring-related costs and events

.30 Transferors and recipients may incur incremental costs that are directly attributable to or result from a restructuring transaction. Payments of such restructuring-related costs are made to parties other than the transferors or recipients of a restructuring transaction.

.31 Restructuring-related costs include, but are not limited to:

(a) costs to enable a restructuring transaction, such as legal, accounting and professional services costs; and

(b) costs to achieve the objectives of restructuring, such as those related to exiting an activity, terminating and combining programs, relocating and terminating employees, and terminating contracts.

.32 Restructuring-related costs would be recognized as an expense when incurred in accordance with individual Sections of the PSA Handbook. Restructuring is not an event that can justify a delay or an advance in recognition of these costs as expenses. For example, termination benefits would be recognized as an expense in accordance with guidance in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, paragraph PS 3255.28.

.33 Restructuring may give rise to certain events or transactions that are not part of the restructuring transaction. Restructuring-related events or transactions would be accounted for in accordance with individual Sections of the PSA Handbook.

.34 Restructuring may trigger a curtailment of a transferor's retirement benefit plans due to reduction of a significant number of employees. A transferor may decide to partially settle its obligation under a retirement benefit plan as a result of restructuring. Gain or loss on plan curtailment or settlement would be recognized in accordance with RETIREMENT BENEFITS, Section PS 3250.

.35 Subsequent to the restructuring date, a recipient may decide to change the manner and duration of use of a tangible capital asset it received. A write-down of the asset may be needed in accordance with TANGIBLE CAPITAL ASSETS, Section PS 3150.

MEASUREMENT

Individual assets and liabilities to be transferred

.36 A transferor continues to measure individual assets and liabilities to be transferred in an upcoming restructuring transaction on the same basis prior to the restructuring date. For example, it does not write down a tangible capital asset that will be transferred in a restructuring transaction simply because of the upcoming restructuring or its expected change in use after the restructuring. It only considers any change in the use of the asset prior to the restructuring date to determine whether a write-down is required in accordance with TANGIBLE CAPITAL ASSETS, Section PS 3150.

Individual assets and liabilities transferred and received

.37 *A transferor should derecognize individual assets and liabilities transferred in a restructuring transaction at their carrying amount at the restructuring date.* [APRIL 2018]

.38 *A recipient should recognize individual assets and liabilities received in a restructuring transaction at their carrying amount with the following adjustments, where applicable, at the restructuring date:*

(a) to comply with PSA standards;

(b) to align with accounting policies, methods and assumptions to be adopted by the recipient; and

(c) to reflect the circumstances of the recipient. [APRIL 2018]

.39 These adjustments to the carrying amount are made at the restructuring date because they arise from the restructuring transaction, not from results of operations of the recipient subsequent to restructuring.

.40 The carrying amount of the assets and liabilities received would be adjusted to comply with PSA standards before they can be recognized by the recipient if the transferor does not prepare its financial statements in accordance with PSA standards.

.41 A transferor may have adopted different accounting policies and methods from those to be adopted by the recipient. The economic assumptions used by the transferor, such as the expected inflation escalation and discount rate in determining the long-term liabilities transferred in a restructuring, may not be consistent with those to be used by the recipient.

.42 The carrying amount of the assets and liabilities received may need to be adjusted to align with the accounting policies, methods and assumptions to be adopted by the recipient to establish consistent basis for reporting subsequent to the restructuring date. For example, the carrying amount of a transferred long-term liability at the restructuring date would be adjusted to reflect a different discount rate to be used by the recipient. However, the carrying amount of a transferred tangible capital asset at the restructuring date would not be adjusted to reflect a different total amortization period to be used by the recipient. A longer or shorter remaining amortization period would apply to the unamortized balance at the restructuring date for reporting periods subsequent to the restructuring date.

.43 Adjustment to the carrying amount of assets and liabilities received may be required as the circumstances of the recipient affecting the transferred assets and liabilities may be different from those of the transferor. Such adjustments would only be made to reflect changes that are effective upon restructuring and circumstances existing at the restructuring date. Plans for future change or anticipated future conditions would not be recognized earlier than they would have been otherwise by applying the individual Sections of the PSA Handbook.

.44 One example of a different circumstance of a recipient is the manner and duration of use of a tangible capital asset received. If a capital asset is subject to a lower usage by the recipient effective upon its transfer, adjustment to its carrying amount at the restructuring date may be needed to recognize any impairment loss. However, consistent with TANGIBLE CAPITAL ASSETS, Section PS 3150, no increase to the carrying amount of a transferred asset would be made including a reversal of a previous write-down by the transferor.

.45 Another example of a different circumstance of a recipient is the applicable environmental standards in its jurisdiction. If the environmental standards applicable to the transferor and recipient of a solid waste landfill site or a contaminated site transferred in a restructuring transaction are different, adjustment to the carrying amount of these liabilities may be required at the restructuring date.

CLASSIFICATION

.46 Individual assets and liabilities received in a restructuring transaction are initially classified in the statement of financial position of the recipient based on its accounting policy and circumstances at the restructuring date.

.47 Aligning with the accounting policies to be adopted by the recipient may require reclassification of assets and liabilities received in a restructuring transaction at the restructuring date. For example, reclassification would be required if the transferor and the recipient have different accounting policies on designating financial instrument assets and financial instrument liabilities in the fair value category under FINANCIAL INSTRUMENTS, paragraph PS 3450.023, and the restructuring does not give rise to changes in how risks would be managed and performance would be evaluated. [Former paragraph PS 3430.47, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

PRESENTATION

.48 *The net effect of a restructuring transaction should be presented as a separate revenue or expense item in the statement of operations.* [APRIL 2018]

.49 Presenting the net effect of all assets and liabilities an entity transferred to all recipients and received from all transferors and compensation recognized as a single revenue or expense item in the statement of operations for the period in which the restructuring transaction occurs reflects the highly aggregated nature of financial statements.

.50 *A transferor and a recipient should not restate its financial position or results of operations prior to the restructuring date to retroactively report the effects of a restructuring transaction in its financial statements as if the restructuring transaction took place prior to the restructuring date.* [APRIL 2018]

.51 Restructuring is an event that changes the economics of the transferors and recipients from the restructuring date onward. It does not change their history or accountability for the past. Retroactive application with restatement of prior periods is only appropriate when there is a change in an accounting policy or a correction of a prior period error that does not arise from a change in the economic circumstance of an entity.

.52 A recipient discloses the initial amounts recognized for individual assets and liabilities received rather than presenting them in its statement of financial position. The net effect of a restructuring transaction is presented as a separate revenue or expense item in the statement of operations for the period in which the restructuring transaction occurs. The results of operations of the transferred responsibilities from the restructuring date to the end of the reporting period are combined with the results of the recipient's pre-restructuring operations, if any, for the entire reporting period in the statement of operations in the period the restructuring transaction occurs.

.53 A transferor would separately identify the revenue and expenses of the programs or operations for which the responsibilities are transferred in the statement of operations in the period the restructuring transaction occurs, including the comparative amounts, if they are significant in relation to the results of operations. Otherwise, it would disclose the information.

DISCLOSURE

.54 *A transferor and a recipient should disclose sufficient information to enable users to assess the nature and financial effects of a restructuring transaction on their financial position and operations.* [APRIL 2018]

Disclosure in the reporting period prior to the restructuring

.55 A transferor and a recipient provide a description of the restructuring and an estimate of its financial effect, when practicable, or a statement that such an estimate cannot be made, in the notes to its financial statements of the reporting period preceding the restructuring if:

(a) a restructuring agreement is reached prior to completion of the financial statements; and

(b) the restructuring would have a significant effect on its assets, liabilities and future operations.

Disclosure in the reporting period in which the restructuring occurs

.56 A transferor and a recipient provide a description of the restructuring transaction in the notes including:

(a) the entities involved and the nature of their relationships if there is any control, common control or shared control relationship among them;

(b) the reason for the restructuring;

(c) the restructuring date;

(d) the nature of assets, liabilities and related responsibilities transferred;

(e) the nature and terms of any compensation;

(f) the nature and extent of any contingent assets, contingent liabilities, contractual rights and contractual obligations transferred; [Former paragraph PS 3430.56(f), amended by 2019-2020 annual improvements, retained in Archived Pronouncements.]

(g) the nature of any restructuring-related costs incurred; and

(h) the nature and, where applicable, terms of other restructuring-related events, arrangements and transactions.

.57 In addition to the disclosures set out in paragraphs .52 and .53, a transferor and a recipient disclose the following information, in aggregate and by recipients / transferors where applicable and significant, in the notes:

(a) the carrying amount of assets and liabilities transferred and received at the restructuring date by major classifications;

(b) any adjustments made to the carrying amount of assets and liabilities received and the rationale for the adjustments;

(c) the amount of any compensation recognized;

(d) the amount of and the line item in which the net effect of the restructuring transaction is recognized;

(e) the amount of and the line items in which restructuring-related costs are recognized;

(f) the amount of and the line items in which the effects of any restructuring-related events and transactions are recognized.

.58 A recipient also discloses the revenue and expenses related to the transferred responsibilities that are included in the statement of operations by major classifications.

Optional disclosure

.59 Disclosure of information about the transferred assets and liabilities, and results of operations related to the transferred responsibilities prior to the restructuring date by the recipient, is encouraged but not required. Whether this information would be disclosed, as well as the extent and format of such a disclosure, would be determined based on:

(a) the usefulness of the information to the readers;

(b) the materiality of the financial effects;

(c) the cost associated with and the practicality of providing the information.

.60 A transferor or a recipient may determine that restating the financial position and results of operations prior to a restructuring date as if the restructuring transaction took place since its formation provides useful information for readers. If it chooses to provide this information, it may do so in the notes and schedules to the financial statements, but not on the statements, and clearly marks it as pro forma information.

.61 Disclosure of information about a recipient's assets and liabilities, and results of operations, prior to the restructuring date is encouraged but not required.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.62 This Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted. ACCOUNTING CHANGES, Section PS 2120, does not apply to this Section.

.63 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraph PS 3430.47. The amendment is applicable at the same time as Section PS 1202, for fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted if Section PS 1202 is also early adopted. Prior period amounts would need to be restated to conform to the requirements for comparative financial information in Section PS 1202.
