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ACCOUNTING STANDARDS ADVISORY FORUM

MEETING DATE: March 26-27, 2015

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Business combinations under common control (BCUCC)

Purpose

1. The paper provides a brief summary of:

   (a) the current and historical Canadian experience in accounting for BCUCC under IFRS, including the frequency and purpose of transactions, the method of accounting for transactions, the involvement of third parties in transactions and financial statement disclosure[1] of transactions; and

   (b) the requirements in the Canadian related party accounting standard (CPA Canada Handbook – Accounting, Section 3840, *Related Party Transactions*).

2. This paper considers the Canadian experience and accounting guidance in the context of the IASB's current BCUCC research project with the objective of providing input into future agenda consultations.

[1] Private companies are not required to publicly file their financial statements in Canada. Therefore, all disclosure examples are those of publicly listed entities.

3. This paper includes two Appendices for further reading:

    (a) Appendix A includes Section 3840 *Related Party Transactions* (for reference).

    (b) Appendix B includes excerpts of financial statement disclosures published by Canadian publicly listed entities describing their accounting for BCUCC.

Questions

4. ASAF members are asked to share their experience in their jurisdictions. In particular, how often do BCUCC involve unrelated third parties or non-controlling interests in their jurisdiction?

Summary of findings and comments

5. BCUCC are common in the Canadian marketplace and occur for various reasons. In our experience and in-line with our survey responses, there is diversity in Canadian practice in accounting for BCUCC, with the predecessor values method most frequently used. Accordingly, we support the IASB's initiative to provide guidance on these transactions. We also support the IASB's plan to provide guidance on group restructurings that do not meet the definition of a business combination.

6. Canadian companies have successfully applied the related party transaction standard for nearly 30 years and we think, as illustrated in the standard, that it is not necessary to develop one measurement model to account for all BCUCC. Therefore, we encourage the IASB to consider financial statement users and potential transaction types when developing guidance for BCUCC.

Current project

7. In developing guidance related to accounting for BCUCC, we recommend that the IASB consider the significance of the involvement of unrelated third parties to the transaction.

Overall, we think that the mere existence of unrelated third parties in the transaction is not sufficient to require business combination accounting.

Topics to be considered in future agenda consultations

8. In Canada, BCUCC commonly do not include unrelated third parties or non-controlling interests. Therefore, to the extent that they are not covered in the current project plan, we encourage the IASB to provide BCUCC guidance for other transactions, including transactions that do not involve unrelated third parties or interested third parties but do meet the definition of a business.

Navigating the paper

9. This paper is organized as follows:

   (a) Definitions of key terms used throughout the paper;

   (b) A description of the scope of the AcSB staff's outreach activities;

   (c) A background discussion on Canadian standards; and

   (d) A description of the Canadian experience in accounting for related party transactions, with a particular focus on the measurement of BCUCC in accordance with Section 3840. This paper describes, by measurement method (exchange amount or carrying amount) the usefulness of the measurement approach, survey respondent observations, a description of the Section 3840 measurement and presentation model, consideration of third party involvement in BCUCC transactions and illustrative examples of financial statement disclosures.

Definitions of key terms

10. The **predecessor values method** requires the financial statements to be prepared using the predecessor book value without any step-up to fair value.

11. The **acquisition method** requires the acquirer to recognize and measure the identifiable assets acquired, and liabilities assumed (and any non-controlling interest in the acquiree) primarily at fair value.

12. A **spin-off** is a transaction in which an entity reorganizes itself with the intent of selling a portion or all of an entity to an outside interest. Entities often reorganize themselves through BCUCC in advance of spin-off transaction.

13. **Carrying amount** is defined as "the amount of an item transferred, or cost of services provided, as recorded in the accounts of the transferor, after adjustment, if any, for amortization or impairment in value". (paragraph 3840.03(a))

14. **Exchange amount** is defined as "the amount of consideration paid or received as established and agreed to by related parties". (paragraph 3840.03(b)) When a BCUCC is accounted for using the exchange amount, the transaction is measured in accordance with the relevant business combinations standard.

15. **Push-down accounting** is a technique that attributes revised values to the assets and liabilities reported in the financial statements of an enterprise based on a purchase transaction or transactions of its equity interests. Application of the technique results in the acquirer's cost being assigned to the assets and liabilities of the acquired enterprise. (Section 1625.03(c))

Scope of the AcSB staff's outreach activities

16. In developing this paper, a limited scope survey of the members of the AcSB's IFRS Discussion Group (IDG) and individual members of the AcSB was conducted. The IDG is a consultative group of the AcSB that discusses, in a public forum, issues identified by Canadians when applying IFRS. The IDG's role is to raise awareness of accounting application issues and to recommend to the AcSB issues that may be referred to IASB or IFRIC for additional consideration. The IDG[2] consists of members with a range of backgrounds and experience, including public and private companies, users and auditors of financial statements and securities regulators.

17. This paper also takes into consideration views expressed at the AcSB's User Advisory Council (UAC) meeting held on November 17, 2014. The UAC is an advisory group of the AcSB established to increase financial statement user participation in the accounting standard-setting process. The group includes investors and investment professionals, credit granters in financial institutions, equity and credit analysts and rating agencies. The AcSB uses feedback received from the UAC[3] in developing high-quality standards that provide useful information to financial statement users at a reasonable cost.

Background

18. The AcSB issued Section 3840 *Related Party Transactions* in 1995 and issued additional guidance specifically related to BCUCC in 1995 and 1998.

19. On January 1, 2011 Canadian publicly accountable enterprises adopted IFRS while investment entities and entities with rate regulated activities had later adoption dates pending the completion of IFRS projects. These entities applied Canadian Generally Accepted Accounting Principles or the pre-changeover standards before adopting IFRS.

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[2] Visit the AcSB's website at: http://www.frascanada.ca/international-financial-reporting-standards/ifrs-discussion-group/about-the-group/index.aspx for more information about the IDG.

[3] Visit the AcSB's website at: http://www.frascanada.ca/accounting-standards-board/members/committees/item55945.aspx for more information about the UAC.

20. In conjunction with Canadian publicly accountable enterprises moving to IFRS, most Canadian private entities transitioned to Accounting Standards for Private Enterprises developed by the AcSB. The standards for private enterprises largely retained the related party guidance previously applied by public and private enterprises under the pre-changeover standards.

21. Both Canadian GAAP – pre-changeover standards and the Accounting Standards for Private Enterprises are similar to IFRS in that the standards are principles based and require the application of judgement. Both sets of standards, like IFRS, have related party sections. However, unlike IFRS, the Canadian standard on *Related Party Transactions* includes measurement and disclosure guidance.

The Canadian Experience and Section 3840

Introduction

22. BCUCC are common in Canada with **92%** of survey respondents observing or completing at least one transaction annually.

23. Canadian organizations regularly restructure themselves in contemplation of tax planning opportunities, initial public offerings (IPOs), spin-off transactions and corporate reorganizations (such as discontinued operations). Survey respondents observed or completed BCUCC in the above contexts, with the following frequency:

	More than once per year	Once per year	Once every two years	Never	Other (rarely or infrequently)
Tax planning arrangements	**69%**	**-**	**-**	**8%**	**23%**
IPOs	**31%**	**8%**	**-**	**46%**	**15%**
Spin-off transactions (without an IPO)	**38%**	**-**	**8%**	**46%**	**8%**
Other (i.e. Corporate reorganizations, etc.)	**54%**	**15%**	**-**	**8%**	**23%**

24. Canadian private companies, including private subsidiaries of publicly accountable enterprises, are not required to file financial statements in the public domain. In Canada, BCUCC are commonly completed by wholly-owned subsidiaries under common control, with no impact on the consolidated group financial statements.

Methods of Accounting for BCUCC in Canada

25. There is diversity in Canada in the method used to account for BCUCC with the predecessor values method being the most commonly selected IFRS method for accounting for these combinations.

26. **61**% of survey respondents identified the predecessor values method as being the most commonly selected method of accounting for BCUCC with **31**% identifying both the acquisition method and predecessor values method as being equally as common. Only **8**% of survey respondents identified the acquisition method as being the most commonly selected method of accounting for BCUCC.

Why is Section 3840 relevant?

27. Canadian entities applied the related party guidance prior to adopting IFRS. In the absence of specific IFRS requirements regarding accounting for BCUCC, some Canadian IFRS financial statement preparers have continued to look to Section 3840 for guidance in accounting for BCUCC in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraph 12).

Measurement of Related Party Transactions

28. Section 3840 is built on the premise that accounting for and measurement of BCUCC is dependent on the relevant facts and circumstances of the transaction. The Section does not provide a “one-size fits all” solution of accounting for all BCUCC transactions instead it requires different measurement alternatives depending on the substance of the transaction.

29. In Section 3840, all related party transactions[4] are measured at either their carrying amount or exchange amount depending on the nature of the transaction, whereas under IFRS, related and non-related party transactions are measured using the same basis.

Transfer of business at exchange amount

Why is exchange amount useful?

30. Exchange amount is a useful measurement basis for BCUCC when financial statement users of the post-acquisition consolidated or combined financial statements are interested in the fair value of assets acquired and liabilities assumed. Overall, the UAC favoured the use of fair value (the acquisition method) to measure BCUCC for the following reasons:

    (a) it provides the various stakeholders to the transaction (NCI, debt holders, etc.) with updated values for assets acquired and liabilities assumed; and

    (b) financial analysts are primarily concerned with values that are agreed upon between unrelated parties.

Frequency of use

31. The following table[5] illustrates by transaction context, the frequency at which survey respondents observed BCUCC being accounted for using the acquisition method:

[4] Paragraphs 3840.03(g) and 3840.04(a) specifically identify entities under common control as being related parties.

[5] This table includes, by transaction context, the experience of those survey respondents who have historically observed BCUCC at least once (i.e., the tables excludes respondents that had 'never' seen a BCUCC in the table on page 6).

	More than once per year	Once per year	Once every two years	Never	Other (rarely or infrequently)
Tax planning arrangements	**17%**	**17%**	**-**	**41%**	**25%**
IPOs	**14%**	**-**	**-**	**57%**	**29%**
Spin-off transactions (without an IPO)	**-**	**-**	**-**	**67%**	**33%**
Other (i.e. Corporate reorganizations, etc.)	**9%**	**-**	**-**	**64%**	**27%**

Accounting under Section 3840

32. In Section 3840, BCUCC are measured at their exchange amount when the transaction meets all of the following criteria:

    (a) the transaction has commercial substance which is when an entity's future cash flows change significantly as the result of the transaction;

    (b) the transaction has to have resulted in a substantive change in ownership interests; and

    (c) the exchange amount is supported by independent evidence.

<u>Change in ownership interests is substantive</u>

33. A change in ownership interests is presumed to be substantive when unrelated parties acquire or give up at least 20 percent of the ownership interests of an asset, which in this case is a business under common control.

34. It is not always clear whether a change in ownership interest is substantive and therefore financial statement preparers may need to exercise a certain degree of judgment in determining whether changes in ownership interests are substantive. Similar to IFRS 3 (determination of whether an entity has control) and IFRS 11 (determination of whether an

entity has joint control), it may be difficult to determine whether the change in ownership is truly substantive, once all the facts and circumstances are considered. While it is not the purpose of this paper to debate terms such as “substantive”, there may be application challenges in applying the above change in ownership guidance.

35. We acknowledge that the use of a percentage threshold creates a “bright-line” test of whether the change in ownership interests is substantive. Therefore we would recommend, when developing new guidance, that a qualitative description be used. For example, the ‘significant’ threshold in IAS 28, *Investments in Associates and Joint Ventures* could be used.

Involvement of unrelated third parties or non-controlling interests

36. **31**% of survey respondents observed BCUCC involving unrelated third parties or non-controlling interests at least once every two years. The remaining respondents observed that BCUCC under IFRS either never or rarely included unrelated third parties or non-controlling interests.

37. In our experience, changes in ownership interests as a result of BCUCC are frequently non-substantive or involve minimal participation of unrelated third parties or non-controlling interests.

38. Section 3840 presumes that a 20% change in the ownership interests of a transferred business is substantive. While the threshold may be open to debate and should consider all the facts and circumstance of unrelated party participation (for example: participation in the board, etc.), Section 3840 is built on the premise that the mere existence of unrelated parties or non-controlling interests in a transaction is not sufficient to warrant business combination accounting given the costs to apply it.

Exchange amount is supported by independent evidence

39. The guidance also requires at least one of the following forms of evidence to support the use of an exchange amount to measure a BCUCC:

(a) independent appraisals, valuations or approvals, by appropriately qualified parties that are not related to the enterprise, carried out to determine the exchange amount;

(b) comparable recently quoted market prices, in an open and unrestricted market;

(c) comparable independent bids on the same transaction; or

(d) comparable amounts of similar transactions actually undertaken with unrelated parties. (paragraph 40)

40. There may be certain costs in generating evidence to support the exchange amount of a BCUCC, including fair value opinions, independent valuations, etc. In our experience, BCUCC do not frequently have easily observable inputs such as quoted market prices, independent bids on the same transaction or comparable similar transactions as a means of determining fair value. And as such, entities are frequently required to perform business valuations, often with the assistance of third party valuators to support the transaction fair value or exchange amount.

Transfer of business at carrying amount

Is carrying amount useful?

41. Several members of the UAC supported the use of the predecessor values method or the use of carrying amounts to account for BCUCC. These users were of the view that if there is no change in economic substance then a step-up in value is assets is unwarranted. They were also concerned that entities may have the incentive, prior to an IPO, to overstate asset fair values to maximize offering proceeds.

42. Other UAC members expressed concern with the predecessor values method and incorporating the results of an acquired entity as if both entities had always been combined. In particular, UAC members expressed concern regarding the difficulty and usefulness of carve-out financial statements and the challenges of completing the exercise on “an intellectually honest basis” while using significant professional judgment.

Frequency of use

43. The following table[6] illustrates by transaction context, the frequency at which survey respondents observed BCUCC being accounted for using the predecessor values method (continuity of interest):

6 This table includes, by transaction context, the experience of those survey respondents who have historically observed BCUCC at least once (i.e., the tables excludes respondents that had ‘never’ seen a BCUCC in the table on page 6).

	More than once per year	Once per year	Once every two years	Never	Other (rarely or infrequently)
Tax planning arrangements	**67%**	**-**	**-**	**25%**	**8%**
IPOs	**57%**	**14%**	**-**	**-**	**29%**
Spin-off transactions (without an IPO)	**83%**	**-**	**-**	**-**	**17%**
Other (i.e. Corporate reorganizations, etc.)	**55%**	**9%**	**-**	**27%**	**9%**

Accounting under Section 3840

44. If a BCUCC does not result in a substantive change in ownership interests or the exchange amount is not supported by independent evidence, the acquiring enterprise records the assets acquired and liabilities assumed at their carrying amount in the balance sheet of the transferred business, and if appropriate, recognizes non-controlling interests. This accounting is frequently referred to as "continuity of interest".

45. Given that the transaction has not resulted in a substantive change in the ownership interests of the transferred business, any changes in non-controlling interest is recognized as an equity transaction. This guidance is consistent with IFRS 10 *Consolidated Financial Statements*, when changes in non-controlling interests that do not result in a change of control are recorded within equity.

46. The "continuity of interest method" of accounting for BCUCC under Section 3840 is relatively consistent with the IFRS application notion of the predecessor value method, with the exception of Section 1625 *Comprehensive Revaluation of Assets and Liabilities.*

47. Section 1625 permits the use of push-down accounting when an entity acquires all or virtually all of the equity interests of an enterprise. "Virtually all" is considered to be 90% or greater of the outstanding equity of the acquired enterprise. Therefore, assuming an entity acquired all or virtually all of the outstanding equity of the acquired enterprise,

Section 1625 permits the outside basis difference or the acquisition differential, to be included in the accounts of the acquired business. As a consequence, on the completion of a BCUCC, the transferred business' carrying amounts of the assets acquired and liabilities assumed may reflect the revised values determined by the parent company in the completion of the original business combination.

Involvement of unrelated third parties or non-controlling interests

48. **92**% of survey respondents observed that BCUCC involved fully-owned related parties at least once annually (**85**% multiple times annually). The remaining respondents observed that BCUCC under IFRS involved fully-owned related parties at least once every two years.

49. In our experience, Canadian financial statement preparers tend to prefer using predecessor values or the continuity of interest method to account for BCUCC due to its relative simplicity and lower cost when compared to accounting for the transaction as a business combination. It is also our experience that BCUCC in the Canadian marketplace often lack substantive changes in ownership interests.

Financial statement presentation

50. Paragraph 3840.44(b) requires 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 and for all prior periods.

51. Section 3840, unlike IFRS, provides a basis of financial statement presentation for BCUCC. The Canadian continuity of interest method reflects the income and the assets and liabilities of the acquired business, in the combined results of the enterprise as if the business combination had been completed by the acquiring entity. This method is built on the premise that:

    (a) Financial statement users are interested in the comparative results of the combined entity; and

(b) The transaction is between related parties and it would therefore not be misleading to reflect the historical results of the acquired business in the comparative results of the combined entity.

52. When an entity accounts for a BCUCC using the predecessor values method they make an accounting policy choice regarding the presentation of the consolidated financial statements. In practice, entities either incorporate the acquired entity's results as if both entities had always been combined or only from the date on which the transaction occurred.

Why is incorporating historical results useful?

53. **46**% of survey respondents observed that BCUCC accounted for using the predecessor values method incorporated the results of an acquired entity as if both entities had always been combined. Yet, **15**% of respondents identified that both the above method and the incorporation of the acquired entities results only from the date on which the transaction occurred were equally as common.

54. In Canada, public companies are required to illustrate three-years of comparative financial statement information in their IPO filings. Entities completing BCUCC in contemplation of an IPO may be required to include this historical financial information for both the acquiring and acquired entities subject to the BCUCC.

55. Several members of the UAC preferred public companies illustrate a "long history of operations" through the incorporation of the acquired entity's results as if both entities had always been combined.

Financial statement disclosure

56. Canadian public companies often provide detailed financial statement disclosure to explain the impact of BCUCC. We have included two illustrative examples of financial statement disclosure describing BCUCC in Appendix B.

Do Canadians want guidance?

57. Overall, the respondents to the survey are supportive of the IASB's initiative to provide guidance on BCUCC. Most respondents commented that BCUCC are "too common to not have guidance" and that guidance would be desirable to reduce divergence in practice. Members of the UAC also expressed concern regarding the divergence in practice of accounting for BCUCC and the sufficiency of financial statement disclosure.

58. Several survey respondents expressed the view that the IASB should expand the scope of the BCUCC project to include other transactions, such as BCUCC undertaken in tax planning arrangements, and to distinguish BCUCC from new entity formations as discussed in IFRS 3 paragraph B18.

Appendix A

SPECIFIC ITEMS
SECTION 3840
related party transactions

1. TABLE OF CONTENTS **Paragraph**

PURPOSE AND SCOPE

.01 This Section establishes standards for the measurement and disclosure of related party transactions in the financial statements of profit-oriented enterprises.

.02 This Section does not apply to:

(a) management compensation arrangements, including employee future benefits accounted for in accordance with EMPLOYEE FUTURE BENEFITS, Section 3462, expense allowances and other similar payments, including loans and receivables, to individuals, in the normal course of operations; and

(b) transactions between an enterprise preparing non-consolidated financial statements and subsidiaries:

(i) that are only controlled through means other than voting interests, potential voting interests, or a combination thereof, and

(ii) for which control is the only basis for the related party relationship.

Transactions with such enterprises are governed by other Sections, such as CONTRACTUAL OBLIGATIONS, Section 3280.

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

(a) **Carrying amount** is the amount of an item transferred, or cost of services provided, as recorded in the accounts of the transferor, after adjustment, if any, for amortization or impairment in value.

(b) **Exchange amount** is the amount of consideration paid or received as established and agreed to by related parties.

(c) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

[(d)-(f) Excluded as not relevant to BCUCC discussion.**]**

(g) **Related parties** exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members (see paragraph 3840.04).

(h) A **related party transaction** is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

(i) An **ownership interest** in an item transferred or the benefit of a service provided exists when an enterprise has the right and ability to, directly or indirectly, obtain future economic benefits from the item transferred or the service provided.

IDENTIFICATION OF RELATED PARTIES

.04 The most commonly encountered related parties of a reporting enterprise include the following:

(a) An enterprise that directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the reporting enterprise.

(b)-(i) Excluded as not relevant to BCUCC discussion.

.05-.07 Excluded as not relevant to BCUCC discussion.

MEASUREMENT

.08 *A related party transaction shall be measured at the carrying amount, except as specified in paragraphs* 3840.18 *and* 3840.29*.*

.09 *When a related party transaction is measured at the carrying amount, any difference between the carrying amounts of items exchanged, together with any tax amounts related to the items transferred, shall be included as a charge or credit to equity.*

.10-.17 Excluded as not relevant to BCUCC discussion.

Transaction in the normal course of operations

.18-.28 Excluded as not relevant to BCUCC discussion.

Transaction not in the normal course of operations

.29 *When a monetary related party transaction or a non-monetary related party transaction that has commercial substance is not in the normal course of operations, it shall be measured at the exchange amount when:*

(a) the change in the ownership interests in the item transferred or the benefit of a service provided is substantive; and

(b) the exchange amount is supported by independent evidence.

.30 A related party transaction that is not in the normal course of operations requires additional support for the substance of the transaction in order for the exchange amount to be used for financial reporting purposes. When the criteria in paragraph 3840.29 are satisfied, the exchange amount is more representative of the economic reality of the transaction than the carrying amount and is sufficiently reliable to be used for financial reporting purposes.

.31 When a transaction results in a substantive change in ownership interests in the item transferred, or the benefit of a service provided, there are often sufficient interests by unrelated parties to provide some support for the reliability of the exchange amount. When a substantive change in ownership interests is coupled with independent evidence, there is sufficient support for measurement of the transaction at the exchange amount.

.32 When the ownership interests in an item transferred, or the benefit of a service provided, change, the ability to obtain future economic benefits from the item transferred, or the service provided, also changes. When the continuity of influence over an item transferred, or the beneficial interests of a service provided, has not changed, the transaction has insufficient substance to justify a change in measurement for financial reporting purposes and, hence, its carrying amount is retained. Generally, the greater the change in the ownership interests, the more likely the change is substantive.

.33 A change in the continuity of influence occurs when:

(a) the nature of the relationship of the transferor to the item transferred changes (for example, from control to joint control); or

(b) the residual equity ownership interest of the item transferred changes by at least 20 percent (for example, a parent transfers an asset to a partially owned subsidiary when the minority interest consists of a 40 percent interest in the common shares of the investee).

.34 Ownership interests may be represented by such evidence as equity shareholdings or other contractual agreements. In a corporate relationship a related party transaction may result in a change in the legal title of an item exchanged without a substantive change in the equity ownership interests in the item. The continuity of influence over the item transferred is retained and, therefore, the carrying amount is also retained. For example, when an item is transferred between two subsidiary companies, both wholly owned by the same parent, although the legal title to the item transferred may have changed, there has been no change in the ownership interests in the item transferred and, accordingly, the transfer is accounted for at the carrying amount of the item transferred.

.35 A change in the equity ownership interests in an item transferred, or the benefit of a service provided, is presumed to be substantive when a transaction results in unrelated parties having acquired or given up at least 20 percent of the total equity ownership interests in the item or service benefits, unless persuasive evidence exists to the contrary.

.36 A change of less than 20 percent of the total equity ownership interests in the item transferred, or benefit of a service provided, may be substantive when the degree of influence of the parties over the item transferred or service benefits provided has substantively changed. For example, when an investor transfers an item to a joint arrangement, a related investor may not have acquired at least 20 percent of the total ownership interests in the item after the transfer. However, if the item becomes jointly controlled by the various investors as opposed to being controlled by one investor, the rights and obligations to the item have substantially changed. [Former paragraph 3840.36 retained in Archived Pronouncements.]

.37 An enterprise may enter into an arrangement to set up a wholly owned subsidiary and transfer assets to it in contemplation of the subsidiary issuing shares to unrelated parties either before or after the transfer. Such a transfer is measured at the carrying amount of the assets to the parent company, unless the criteria of COMPREHENSIVE REVALUATION OF ASSETS AND LIABILITIES, Section 1625, are met, since there was no substantive change in the ownership interests in the transferred assets at the time the transfer was arranged.

.38 Non-voting participating shares issued to unrelated parties in the course of an estate freeze generally do not give rise to a substantive change in the ownership interests.

.39 A substantive change in ownership interests in the item transferred, or the benefit of a service provided, is insufficient, alone, to support measurement of the transaction at the exchange amount. Support for the exchange amount itself, by independent evidence, is necessary to add substance to that amount.

.40 Independent evidence in support of the use of an exchange amount includes at least one of the following:

(a) independent appraisals, valuations or approvals, by appropriately qualified parties that are not related to the enterprise, carried out to determine the exchange amount;

(b) comparable recently quoted market prices, in an open and unrestricted market;

(c) comparable independent bids on the same transaction; or

(d) comparable amounts of similar transactions actually undertaken with unrelated parties.

.41 The sufficiency and appropriateness of independent evidence required to support the exchange amount is a matter of professional judgment. Such evidence may be in the form of independent documentation supporting the exchange amount, or may be a result of the participation of unrelated parties in determining the exchange amount. In some instances, several items of consistent evidence may be required to support the exchange amount. In other instances, one piece of very persuasive evidence may be sufficient. Generally, the more involved unrelated parties are in developing the evidence, the more persuasive it will be.

.42 An enterprise may have a formal policy to bargain with related parties so that the enterprise would reject an offer from a related party if a better offer were received from an unrelated party. When such bargaining involves unrelated parties, or those selected by the unrelated parties, or those appointed pursuant to regulatory requirements, to act on their behalf, it provides independent evidence to support use of the exchange amount.

.43 A non-monetary related party transaction that does not have commercial substance and is not in the normal course of operations is measured at the carrying amount, in accordance with paragraph 3840.08, regardless of whether the criteria in paragraph 3840.29 are met.

.44 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.

(b) When the criteria in paragraph 3840.29 are not met, the acquiring enterprise records the acquired assets and liabilities at their carrying amount in the balance sheet of the transferred business and, if appropriate, recognizes a non-controlling interest in accordance with NON-CONTROLLING INTERESTS, Section 1602. Any change in the non-controlling interest is recognized as an equity transaction in accordance with Section 1602. The financial statements of 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.

Gains and losses

.45 *When a related party transaction is measured at the exchange amount, any gain or loss resulting from the transaction shall be included in income for the period, unless another Section requires alternative treatment.*

.46 Excluded as not relevant to BCUCC discussion.

Consolidation and equity accounting

.47 Gains and losses arising in combining entities as a result of a business combination (as defined in BUSINESS COMBINATIONS, Section 1582) between related parties are reversed on consolidation.

.48 Excluded as not relevant to BCUCC discussion.

Financial instruments

.49-.50 Excluded as not relevant to BCUCC discussion.

DISCLOSURE

.51 *An enterprise shall disclose the following information about its transactions with related parties:*

(a) *a description of the relationship between the transacting parties;*

(b) *a description of the transaction(s), including those for which no amount has been recognized;*

(c) *the recognized amount of the transactions classified by financial statement category;*

(d) *the measurement basis used;*

(e) *amounts due to or from related parties and the terms and conditions relating thereto;*

(f) *contractual obligations with related parties, separate from other contractual obligations; and*

(g) *contingencies involving related parties, separate from other contingencies.*

.52 Related party transactions may be entered into on the same terms as if the parties were unrelated, or they may be entered into on terms differing from those that might have prevailed if the parties had been unrelated to one another. Without disclosure of information about related party transactions, financial statement readers would be justified in assuming that the transactions reported in the financial statements took place at prices bargained with unrelated parties.

.53 Information about related party transactions is often of more significance to a financial statement user than information about unrelated party transactions, regardless of the size of such transactions. When considering disclosure of related party transactions, the qualitative as well as the quantitative characteristics of materiality are considered.

Description of relationship

.54 Terms such as "affiliate", "associate" and "related company" are insufficiently precise to describe relationships. With additional explanation, the effect of the related party relationship on the enterprise is more understandable. Terms such as "controlled investee", "significantly influenced investee", "jointly controlled enterprise", "common control enterprise", "management", "shareholder", "member of the immediate family of the shareholder or management", and "director" describe the relationships better.

.55 An explanation of how significant influence, joint control or control is exercised between the reporting enterprise and a related party clarifies the nature of their relationship. The entity may clarify the nature of the relationship by including the percentage ownership between the transacting parties, the extent of representation on the board of directors of either party, or details of management contracts between the parties, depending upon the factor that establishes the relationship.

Description of transaction

.56 A clear description of a related party transaction that sets out the significance of the transaction to the operations of the enterprise clarifies the effects of the transaction on the enterprise. Such a description includes information about the nature of the items exchanged and whether the exchange is in the normal course of operations.

.57 An exchange of goods or services between related parties that has not been given accounting recognition is also a related party transaction. For example, an enterprise may provide a related party with management services, or use of a patent or license, in the normal course of operations, without receiving consideration in exchange. An explanation of the nature of such a transaction and the fact that no consideration has been received or paid is useful to explain the effect of the transaction on the enterprise.

Amount of transactions

.58 To convey the extent of related party transactions, the recognized amounts of such transactions are disclosed. Disclosure of information aggregated by financial statement category (for example, revenue, purchases, major operating costs, interest expense or income, and management fee income or expense) and nature of relationship is more useful than disclosure of individual transactions with related parties, except for individually significant transactions.

Consolidated financial statements

.59 In consolidated financial statements, intercompany transactions are eliminated and disclosure of such transactions is normally not required. However, when an enterprise participates in transactions with an investee accounted for by the equity method, the transactions between the investor and the investee are disclosed even though the associated profit or loss is eliminated from the financial statements.

Representations about fair value

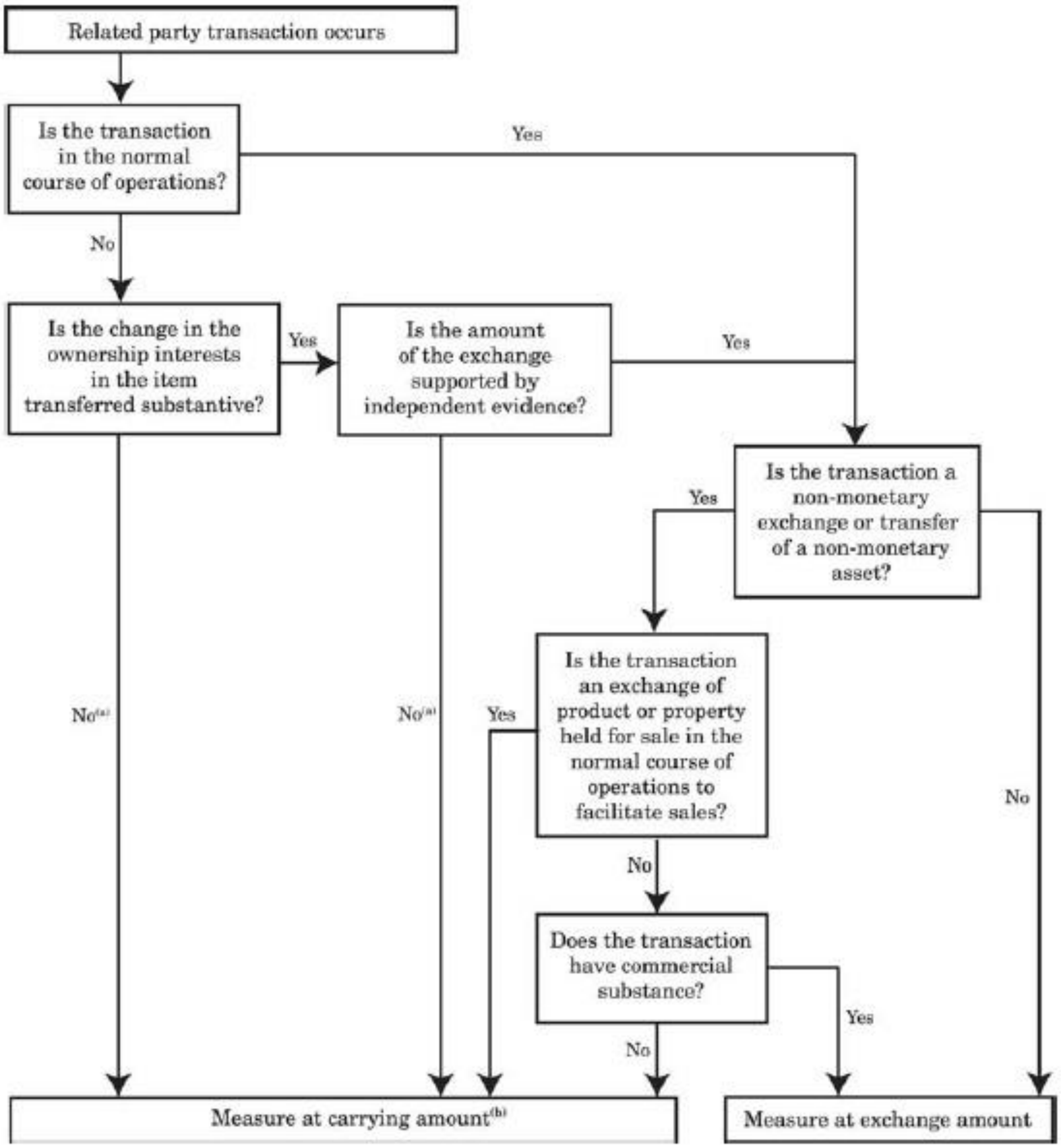
.60 Representations that the exchange amount is equivalent to fair value (or an arm's length equivalent value) are not made unless they can be substantiated. When an enterprise has undertaken a related party transaction on the same terms as current transactions with unrelated parties, with similar volumes, terms and conditions, that fact is disclosed. In many cases, a fair value cannot be determined unless there are identical transactions and the values of the items exchanged are determined by the market (for example, the fair value of an exchange of gold and cash is determined by the market).

EFFECTIVE DATE AND TRANSITION

.61-.62 Excluded as not relevant to BCUCC discussion.

DECISION TREE

This Decision Tree is illustrative only.



(a) Carrying amount is used for both monetary and non-monetary transactions in these circumstances.

(b) In rare circumstances, when the carrying amount of the item received is not available, a reasonable estimate of the carrying amount, based on the transferor's original cost, may be used to measure the exchange.

Appendix B – Excerpts of financial statement disclosure[7]

ABC Company

Financial statements for the year ended December 31, 2013

Significant judgments

In the process of applying our accounting policies, we make various judgments, apart from those involving estimations, that can significantly impact the amounts recognized in the consolidated financial statements. These include:

a. Business combinations under common control

Business combinations under common control ("BCUCC") are business combinations involving entities or businesses under common control, in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination. BCUCC are not within the scope of IFRS 3, Business combinations.

As the Company is a newly formed entity and ABC retained control over the Company, the Offering and acquisition of the Initial Properties is accounted for as a reorganization and recapitalization using the continuity of interests method. Under this method, the Company records the assets acquired and liabilities assumed at their carrying amounts on the closing date of the transaction. The difference between the consideration given and the aggregate value of the net assets acquired is recorded as an adjustment to unitholders' equity. Refer to note 6 for details of the accounting treatment for the acquisition of the Initial Properties. Financial information for the pre-acquisition period, including the comparative periods are presented based on historical combined financial information for the Initial Properties as previously reported by ABC. Refer to note 19 for statements of income and comprehensive income and statements of cash flows for the period disaggregated by the activities of the Company, and its predecessor, ABC.

[7] All financial statements were prepared in accordance with IFRS as issued by the IASB. These examples were extracted from the financial statements of publicly listed Canadian companies and we have changed the names of the companies for confidentiality purposes.

6. ACQUISITION OF INITIAL PROPERTIES

On May 1, 2013, the Company completed the purchase of 27 income-producing properties located in Western Canada, comprised primarily of retail, office and industrial properties (the "Initial Properties") from ABC Developments Ltd. ("ABC") with a carrying value of $397,896. As part of the acquisition of the Initial Properties, the Company also assumed mortgages on certain properties totaling $92,360 at April 30, 2013. Deferred financing fees of $97 were netted against the assumed mortgages. In addition, the working capital, which is comprised of cash balances, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, and other liabilities were transferred on closing. The purchase price was satisfied with cash consideration of $66,016 and issuance of 10,360,798 Class B units of the Partnership. ABC retained the debt on certain properties (the "Retained Debt") with a fair value of $96,506 at April 30, 2013. In consideration of the Retained Debt, ABC received Class C LP units of the Partnership on which it will receive priority distributions.

The allocation of the purchase price to the assets acquired and liabilities assumed, based on their carrying values at the date of acquisition, is as follows:

Net assets acquired:	
Real estate properties	397,896
Working capital, net	(2,680)
Assumed mortgages	(92,263)
	302,953
Distributions to ABC:	
Class C LP Units	96,506
Class B LP Units	103,608
Cash paid out by the Company	66,016
	266,130

Net contribution by ABC: 36,823

On May 10, 2013, the underwriters exercised, in full, their over-allotment option to purchase an additional 830,000 trust units from ABC. The transaction resulted in an increase in unitholders' equity of $8,300 (underwriters' fee was paid by ABC) and a decrease in Class B LP Units of $8,300.

Following closing of the over-allotment option, ABC, through an affiliate, holds an approximate 51.1% effective interest in the Company through ownership of all remaining 9,530,798 Class B LP Units. As ABC will retain control over the Company, the transaction constitutes a business combination under common control which is outside the scope of IFRS 3 – Business combinations. The IPO and acquisition of the Initial Properties by the REIT is accounted for as a reorganization and recapitalization using the continuity of interests method, where by the REIT recorded the assets acquired and liabilities assumed at their carrying amounts. The difference between the consideration given and the aggregate value of the net assets acquired is recorded as an adjustment to unitholders' equity.

Transaction costs directly related to the Offering and acquisition of the Initial Properties were $8,591 and were charged directly to unitholders' equity.

XYZ Company Inc.

Financial statements for the year ended December 31, 2014

C. Basis of Preparation Prior to the Acquisition

The comparative financial statements for the year ended Dec. 31, 2013 include the combined financial statements of the Acquired Assets for the period from Jan. 1, 2013 to Aug. 8, 2013, and have been prepared in accordance with IFRS using the same accounting policies as outlined in Note 2.

Historically, financial statements have not been prepared by XYZ Company for the Acquired Assets as they had not been operated as a separate business by XYZ Company. Accordingly, the financial statements for periods prior to the Acquisition reflect the financial statements for the Acquired Assets in a manner consistent with how XYZ Company managed the Acquired Assets and as though the Acquired Assets had been a separate company. All material assets and liabilities specifically identified to the Acquired Assets and all material revenues and expenses specifically attributable to the Acquired Assets and allocations of overhead expenses have been presented in the financial statements for periods prior to the Acquisition. The financial statements for periods prior to the Acquisition may not necessarily reflect the financial position, results of operations, or cash flows that the Acquired Assets might have had in the past had they existed as a separate business during the periods prior to the Acquisition (see Note 25).

Note 4B. 2013

I. Acquisition of Generating Assets

On Aug. 9, 2013, the Corporation indirectly acquired 28 wind and hydro generating assets from XYZ Company by purchasing all of the issued and outstanding shares of two of XYZ Company's subsidiaries: CHD and WSP. The purchase price of $1.7 billion was satisfied by indirectly assuming outstanding debentures of CHD in the aggregate principal sum of $0.4 billion and consideration transferred of $1.3 billion, as follows:

Consideration Transferred Amount

Issuance of 66,666,667 common shares at $10 per share	666,667
Issuance of closing note	187,000
Issuance of short-term note	250,000
Issuance of acquisition note	30,000
Issuance of amortizing term loan	200,000
Total	**1,333,667**

The Acquisition was accounted for as a business combination under common control, as XYZ Company controlled the Acquired Assets prior to the Aug. 9, 2013 acquisition by XYZ Company Renewables and continued to indirectly control the Acquired Assets after the acquisition date. IFRS 3 *Business Combinations* requires fair value accounting for acquisitions and does not provide guidance for common control transactions. Under established IFRS practice, common control transactions are generally accounted for using either the fair value or the pooling of interest (book value) methods of accounting. The Corporation has chosen to apply the pooling of interest method to account for the Acquired Assets in the 2013 comparative period. The financial statements of the Acquired Assets and the Corporation were combined together at book values, as if the Acquired Assets had always been owned by XYZ Company Renewables, with the exception of the recognition of a reduction in the carrying amount of certain hydro and wind generating facilities resulting from a revaluation based on the terms of the XYZ Company PPAs.

The revaluation resulted in pre-tax reductions of $205.8 million in the carrying amount of the facilities (see Note 13) and $0.7 million in the carrying amount of intangible assets (see Note 14), with the corresponding after-tax amount of $154.9 million charged to retained earnings (deficit).

25. Pre-Acquisition Relationship with Parent

The Acquired Assets have historically been managed and operated in the normal course of business by XYZ Company along with other XYZ Company operations and affiliates. Financial statements have not historically been prepared for the Acquired Assets as they had not been operated as a separate business. Certain shared costs have been allocated to the Acquired Assets and reflected as expenses in the pre-Acquisition period financial statements. Management of XYZ Company and the Corporation consider the allocation methodologies used to be reasonable and appropriate reflections of the related expenses attributable to the Acquired Assets; however, the expenses reflected in the pre-Acquisition period financial statements may not be indicative of the actual expenses that would have been incurred during the periods presented if the Corporation historically operated as a separate entity. In addition, the expenses reflected in the pre-Acquisition period financial statements may not be indicative of expenses that will be incurred in the future by the Corporation. Transactions between XYZ Company and the Acquired Assets prior to the Acquisition have been identified as related party transactions in the pre-Acquisition period financial statements. It is possible that the terms of the transactions with XYZ Company and its affiliates are not the same as those that would result from transactions among unrelated parties. In the opinion of XYZ Company's management, all adjustments have been reflected that are necessary for a fair presentation of the pre-Acquisition period financial statements. Additional information related to the preparation of the pre-Acquisition period financial statements is as follows:

A. Net Parental Investment

XYZ Company's net investment in the Acquired Assets is presented as "net parental investment" and is shown in lieu of shareholders' equity in the pre-Acquisition period financial statements as there was no share ownership relationship between XYZ Company and the Acquired Assets (as the Acquired Assets were not a separate legal entity). Changes in net parental investment include net cash transfers and other transfers to and from the Parent and the Acquired Assets.

B. Cash Management

The Acquired Assets historically participated in XYZ Company's centralized cash management programs. For certain of the Acquired Assets, cash receipts were received and disbursements were made by the Parent, with any excess cash being retained by XYZ Company. Changes in the net cash retained by the Parent for these facilities are, for purposes of the pre-Acquisition period financial statements, reflected through net transfers from Parent on the Consolidated Statements of Changes in Equity. For the remaining operating facilities, cash receipts and disbursements were managed directly by the company that owned the facility, and cash not required for near-term operating requirements was transferred to centralized bank accounts, maintained by XYZ Company. For these operating facilities, cash transfers to and from the Parent were recorded through the Senior Loan, which is discussed below under Related Party Loans. Cash retained by XYZ Company on behalf of the Acquired Assets was not kept in specific separate accounts and was instead comingled with cash from other XYZ Company entities. After the Acquisition, cash generated by XYZ Company Renewables is maintained in separate accounts owned by XYZ Company Renewables, and not comingled with cash from other XYZ Company entities. Credit support is provided to XYZ Company Renewables by XYZ Company through the working capital credit facility.

C. Allocation of Corporate Costs

Allocated costs include XYZ Company charges including, but not limited to: corporate accounting, human resources, government affairs, information technology, shared real estate expenses, legal, treasury, and pension and other post-employment benefits. These costs are included in OM&A expenses. The costs were allocated to the Acquired Assets based on gigawatt hours of production. Note that these expenses may have been different had the Acquired Assets been a separate entity during the periods presented. For the year ended Dec. 31, 2013, these pre-tax costs were $3.5 million.

D. Income Taxes

XYZ Company's historic consolidated financial statements included the operations of the Acquired Assets. For purposes of the financial statements prior to the Acquisition, current and deferred income taxes for certain of the Acquired Assets that were not held in separate legal entities were computed and reported on a "legal entity" basis. Income taxes as presented herein represent an allocation of current and deferred income taxes of XYZ Company to these Acquired Assets in a manner that is systematic, rational, and consistent with the asset and liability method prescribed by IFRS. Under the liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss carryforwards. Accordingly, the sum of the amounts allocated to these Acquired Assets' income tax provisions may not equal the historical consolidated income tax provision. Current and deferred income taxes for those Acquired Assets that were held in separate legal entities represent the income taxes related to that separate legal entity, including deferred income tax assets recognized for the benefit expected from losses available for carryforward to the extent that is probable that future taxable earnings will be available against which the losses can be applied. After the Acquisition, current and deferred income taxes are computed and reported on the basis of the legal entities that comprise the consolidated group.

E. Pension and Other Post-Employment Benefit Plans

The Corporation does not sponsor any pension, post-employment, or employee savings plans. However, employees of XYZ Company providing operational services to the Acquired Assets participate in certain funded final salary pension plans sponsored by XYZ Company. XYZ Company also provides other health and dental plans to its retired employees. There was no contractual agreement or stated policy between the Acquired Assets and XYZ Company for charging these costs (note that the Acquired Assets comprised parts of multiple legal entities). All obligations pursuant to these plans are obligations of XYZ Company and as such are not included in the pre-Acquisition period financial statements. XYZ Company included in its allocation to the Acquired Assets, the costs associated with these plans. These costs form part of OM&A expenses in the pre-Acquisition period financial statements. After the Acquisition date, these costs are addressed under the Management Agreement.

F. Financial Instruments and Derivatives

Financial instruments and derivatives that related to the Acquired Assets were entered into on behalf of the Acquired Assets by a subsidiary of XYZ Company.