



May 14, 2004

Ron Salole  
Director, Accounting Standards  
Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2

Dear Mr. Salole:

**Re: Exposure Draft on Non-Monetary Transactions**

The Committee on Corporate Reporting (“CCR”) of Financial Executives International (Canada) (“FEI Canada”) is pleased to have the opportunity to provide comments to the Accounting Standards Board (AcSB) on the Exposure Draft on Non-Monetary Transactions. The following remarks are made on behalf of the Committee and do not necessarily represent the views of FEI Canada or its members.

FEI (Canada) is an all-industry professional association for senior financial executives, with eleven chapters across Canada and approximately 1,500 members. Membership is generally restricted to senior financial officers of medium to large corporations. CCR is a technical committee of FEI Canada, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations.

We are supportive of the AcSB’s Accounting Standards Improvements Project and harmonization with United States Accounting Standards. Our main area of concern with both the Canadian and United States proposals relates to commercial substance, which should be clearly presumed for transactions between unrelated parties. Responses to the AcSB’s specific requests for comment and other general CCR comments are noted below.

**The AcSB proposes to change the test for fair value measurement of non-monetary transactions, except exchanges of products or property held for sale in the ordinary course of business to facilitate sales to customers, from the culmination of the earnings process to commercial substance. Do you agree that a non-monetary transaction should be accounted for at fair value if it has commercial substance? If not, what changes would you suggest and why?**

Yes, we agree. A non-monetary transaction that has commercial substance is in economic terms two separate transactions with the same entity, eliminating the monetary exchange for both transactions. The accounting result should be the same for a non-monetary transaction that has commercial substance, when compared to two monetary transactions achieving the same economic result. Accounting at fair value for non-monetary transactions that have commercial substance accomplishes this objective.

**Do you agree with the definition of commercial substance? If not, what changes would you suggest and why?**

All arms length transactions have commercial substance. Non-monetary transactions between unrelated parties should be presumed to have commercial substance, with the onus put on entities to show lack of commercial substance. Qualitative factors, such as management’s strategy, should be considered in addition to cash flows when determining commercial substance.

**The AcSB proposes to delete the monetary threshold (boot) from the definition of non-monetary exchanges on the basis that it is redundant because commercial substance considers all changes in cash flows. Do you agree with the proposed change to the definition of a non-monetary exchange? If not, what changes would you suggest and why?**

Yes, we agree. However, we wonder why the FASB is retaining this in the US standard, and could they be persuaded to remove it from the US standard. If not, the AcSB proposal should include a monetary threshold consistent with the US standard.

**The Section applies to non-monetary transactions undertaken by not-for-profit organizations other than those exchanges specifically referenced in Sections 4400 to 4460. Do you agree the proposed changes are operational for not-for profit entities? If not, what changes would you suggest and why?**

We have no comment.

**The proposed changes have been reviewed by the Differential Reporting Advisory Committee. Do you agree that there is no need for any differential reporting options? If not, what changes would you suggest and why?**

Yes, we agree.

**The proposed changes are to be applied prospectively because it is difficult to objectively assess commercial substance in retrospect. Do the transitional provisions proposed provide sufficient information to apply the changes? If not, what additional guidance would you suggest and why?**

Yes, we agree.

**The AcSB proposes significant consequential amendments, in particular to INTERESTS IN JOINT VENTURES, Section 3055, and RELATED PARTY TRANSACTIONS, Section 3840. Do you agree with the proposed consequential amendments? If not, why not? What alternatives would you suggest?**

Yes, we agree.

**Do you agree that the proposals are not in conflict with the requirements of US generally accepted accounting principles? If you believe that they are in conflict, please explain the conflict and suggest how it might be resolved.**

Yes, we agree.

**Do you have any other comments on the proposals? If so, please specify.**

The fair value should be used to account for all significant non-monetary transactions irrespective of whether the difference between fair value and carrying value is significant relative to fair value of the transaction.

CCR hopes its comments will be useful to the AcSB. If you require further clarification with respect to any of our comments, please do not hesitate to contact us.

Yours very truly,



Karyn A. Brooks, CA  
Chair  
Committee on Corporate Reporting  
Financial Executives International (Canada)