

Ontario Securities Commission Staff Accounting Communiqué 52-712
Accounting Basis in an Initial Public Offering ("IPO")

Paragraph 1625.18 of the CICA Handbook indicates that an IPO does not justify a comprehensive revaluation of an enterprise's assets and liabilities unless all or virtually all of the equity interests in the enterprise have been acquired. Paragraph 1625.12 adds that transactions between related parties are not an appropriate basis for a comprehensive revaluation even if they take place at fair value.

Paragraph 1625.18 refers to situations where an enterprise does an IPO. Staff believes assets and liabilities may not be revalued in situations similar in substance. For example, as part of a plan for an IPO by a new company a parent company may transfer a division to the new company (at fair value) in exchange for debt and shares. The IPO may or may not result in a change of control (but would not result in a situation for which paragraph 1625.18 would permit comprehensive revaluation) and cash may or may not be paid to the parent as a result. Staff believes that in this example the accounting basis of the assets and liabilities transferred should not change as a result of the transaction between the parent and the new company.

A number of variations in the form of these transactions is possible. It is necessary in each situation to consider the substance of the transaction.