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Public Sector Accounting Standards (PSAS) Update 2021

Introduction

It has been a busy year for the Public Sector Accounting Board (PSAB or the "Board"). As was the case with many, the Board has been hard at work dealing with the ever-evolving situation of the COVID-19 pandemic. The Board has continued to adjust and make quick decisions to ensure they are continuing to address stakeholder needs. Whilst the pandemic has caused many changes, the Board and its committees were still hard at work advancing the progress of various ongoing projects.

This publication will provide a look at the impacts of COVID-19, an outline of new standards effective over the next few years and an overview of the future of PSAS and projects that will impact public sector entities in the future.

COVID-19 Impacts

Global, national, and local responses to COVID-19 continue to evolve and change and the implications of this virus are far reaching. It has and continues to impact operations in nearly every sector and continues to lead to widespread economic uncertainty. As vaccination efforts continue to improve there has been improvement across most industries but the threat of variants and further lockdowns remain. Some of the ways in which the pandemic is affecting entities include:

- Reduced consumer demand for goods and services due to lost income and restrictions on consumers' ability to move freely;
- Reduced ability to provide goods and services due to government-imposed shutdowns or product shortages and resulting lost revenues;
- Difficulties in collecting from taxpayers and other counterparties facing financial difficulties;
- Increase in governments providing grants, discounted loans and tax deferrals for economic stimulus and stabilization; and
- Uncertainties over future receipt of government and other types of funding for some public sector entities as cost-cutting measures are undertaken.

The financial reporting implications for public sector entities and the precise effects will depend on the circumstances of each entity.

Standards Effective April 1, 2020

The Board has an annual improvements process, the purpose of which is to clarify guidance or wording and to correct for unintended consequences or conflicts in the PSA Handbook. As a result of the 2018-2019 annual improvements process, the Board issued the following amendments:

- Removal of due process procedures from the Handbook, as they are already set out in the Due Process Manual;
- Various standards amended to correct inconsistencies in terminology relating to the government component category that was added to the PSA Handbook a few years ago;
- Amended Section PS 3060, *Government Partnerships*, to remove redundancies and update terminology, including the replacement of the term "government partnership" and "government business partnership" with the term's "partnership" and "business partnership" respectively. This also included changing the name of Section PS 3060 to "Interests in Partnerships"; and
- Correcting inconsistencies in definitions and references throughout the PSA Handbook.

The amendments are effective for fiscal years beginning on or after April 1, 2020 and will impact December 31, 2021 year ends for the first time this year.

Standards Effective April 1, 2021

The changes effective for this period are very general in their nature and impact multiple PSA Handbook areas. They were too minor to impact our issued publications, so no table of resources has been included below. In order to see more details on these amendments please refer to the PSA Handbook and individual standards.

2019-2020 Annual Improvements

As a result of the 2019-2020 annual improvements process, the Board issued the following amendments:

- Amended the Introduction to Public Sector Accounting Standards to clarify that early adoption of a new or amended standard also requires the early adoption of all consequential amendments related to that standard. This also clarifies that the consequential amendments cannot be early adopted if the related amended standard has not also been early adopted.

- Update the disclosure requirements in individual standards relating to Section PS 3380, *Contractual Rights* to require the disclosure of both contractual rights and contractual obligations; and
- Replace the term contingencies in individual standards with the term's contingent assets and contingent liabilities.

The Board issued these amendments in November 2020 with earlier adoption permitted.

Modification of PSAB's GAAP Hierarchy

As you will see later in this publication the PSAB has made a decision on its International Strategy going forward. As part of this decision, Section PS 1150, *Generally Accepted Accounting Principles* has been amended to position the International Public Sector Accounting Standards ("IPSAS") as the first accounting framework that should be consulted where situations or transactions are not covered by primary sources of GAAP or in situations where assistance is needed to apply primary sources of GAAP. For March 31, 2022 and December 31, 2022 year ends entities will now consult the IPSASs.

This amendment would only apply to new transactions or other events where the entity currently has no accounting policy outlined. Public Sector entities would not be required to revise existing accounting policies determined prior to this amendment.

Standards Effective April 1, 2022

In the prior year, the PSAB had been mindful of the evolving situation related to the COVID-19 pandemic and sought to alleviate pressures on public sector organizations as they navigated these difficult times. As a result, PSAB deferred the effective dates for the following amendments and new standards to fiscal years beginning on or after April 1, 2022. Refer to the publications provided in the table below for more detailed information.

Asset Retirement Obligations

In March 2018, the Board issued new Section PS 3280 on asset retirement obligations. Prior to this, the PSA Handbook did not include specific guidance on accounting for asset retirement obligations.

Recognition and Measurement

Under the new standard, an asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset controlled by a public sector entity. Asset retirement obligations associated with tangible capital assets include post-retirement operation, maintenance, and monitoring costs. A liability for an asset retirement obligation would be recognized when all of the following criteria are met:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

Recognition of asset retirement costs is accomplished by increasing the carrying amount of the related tangible capital asset, or a component thereof, and then expensing this amount in a rational and systematic manner. A present value technique may be the best method of estimating the liability. Depending on the nature of a re-measurement and whether the asset remains in productive use, subsequent re-measurement of the liability could result in either a change in the carrying amount of the related tangible capital asset or a component thereof, or an expense. Asset retirement costs associated with an asset that is not recognized on the public sector entity's financial statements and those associated with assets no longer in productive use would be expensed immediately.

Landfills

The new standard includes landfill related asset retirement obligations within its scope so that all asset retirement obligations are accounted for consistently within the public sector. Existing Section PS 3270, *Solid Waste Landfill Closure and Post-closure Liability* will be withdrawn once Section PS 3280 becomes effective. This change will result in asset retirement obligations associated with landfills recognized earlier than they are under the current guidance.

Amendments to Section PS 3260

Changes have been made to Section PS 3260, *Liability for Contaminated Sites*, to clarify what will fall within the scope of this standard vs. the scope of the new asset retirement obligation standard. Additionally, under the new standard any expected recoveries associated with the asset retirement obligation would not be netted against the liability. In the past, Section PS 3260 has allowed recoveries to be netted against the liability. To improve consistency between the two standards, Section PS 3260 has been amended to no longer allow netting.

Financial Instruments, Foreign Currency, Financial Statement Presentation and Portfolio Investments

During 2018, the Board delayed the effective date for Sections PS 3450, *Financial Instruments*, and PS 2601, *Foreign Currency Translation*. These Sections were applicable for fiscal years beginning on or after April 1, 2021, for public sector entities that did not previously apply the CPA Canada Handbook – Accounting prior to adopting the PSA Handbook. Therefore, public sector entities that meet this criteria, such as governments, would have applied these Sections for the first time to their March 31, 2022, year-ends (for governments with calendar year ends, December 31, 2022, would have been the first year-end affected). As the PSAB decided to delay the effective dates for all standards by one year due to COVID-19 each of these dates has been pushed yet again, such that they are now applicable for fiscal years beginning on or after April 1, 2022. This means the first years ends impacted will be March 31, 2023 and December 31, 2023.

At the same time public sector entities adopt these two Sections, they must also adopt Section PS 1201, *Financial Statement Presentation*, Section PS 3041, *Portfolio Investments*, and the effective interest method outlined in paragraph .25 of Section PS 3050, *Loans Receivable*. For more details on these standards, please refer to our publication "A Guide to Accounting for Financial Instruments in the Public Sector."

The original delay in the effective date was due to concerns raised by senior governments in some provinces on the implementation of Sections PS 2601 and PS 3450 related to recognition and measurement of derivatives, the lack of a standard on hedge accounting, and the accounting treatment for bond repurchases. The Board investigated various options to address these concerns and recently issued three further amendments to the above standards in the current year. The details of the amendments are described below, and these amendments would be effective in the same periods the above standards are first applied.

Financial Instruments: Federal Government Narrow-Scope Amendments

The Board issued amendments to Section PS 2601, *Foreign Currency Translation* to address the presentation of the exchange gain or loss component of a financial instruments change in fair value when, that financial instrument is associated with the federal government's foreign reserves. Section PS 1201, *Financial Statement Presentation*, was amended to clarify that foreign exchange gains or losses from such instruments, are not required to be presented in the statement of remeasurement gains and losses.

Financial Instruments: Foreign Exchange Narrow-Scope Amendments

The Board issued amendments to Section PS 1201, *Financial Statement Presentation*, Section PS 2601, *Foreign Currency Translation*, and Section PS 3450, *Financial Instruments*. The amendments to Section 2601, allow all public sector entities to make an accounting policy election for financial assets and financial liabilities arising from a foreign currency transaction to, on initial recognition, recognize their exchange gains and losses, including the foreign exchange gain or loss component of changes in fair value, directly in the statement of operations.

Section PS 1201 has been amended as a result of the above, to clarify that these exchange gains and losses subject to the election would not be recognized in the statement of remeasurement gains and losses. Section PS 3450 has been amended to require disclosure of the carrying value of financial assets and liabilities to which the above election is applied in the notes to the financial statements.

Financial Instruments: Presentation Narrow-Scope Amendments

The Board issued amendments to Section PS 1201, *Financial Statement Presentation* to clarify the presentation of derivatives. The amendments include:

- The remeasurement impact of derivatives and other categories of financial instruments may be presented as separate line items on the statement of changes in net debt;
- A new subtotal for the change in net debt excluding the impact of remeasurement gains and losses may be presented on the statement of change in net debt; and
- A footnote on the net debt indicator may be included in the statement of financial position to refer readers to the additional detail provided on the statement of changes in net debt.

Amendment/ New Standard	Resources
New Section PS 3280, *Asset Retirement Obligations*	• Asset Retirement Obligations (ARO): A Practical Approach to Section PS 3280 • PSAB at a Glance: Section PS 3280, *Asset Retirement Obligations*
New Sections PS 3450, *Financial Instruments;* PS 2601, *Foreign Currency Translation*; PS 3041, *Portfolio Investments*; PS 1201, *Financial Statement Presentation*; and amendments to Section PS 3050, *Loans Receivable*, on accounting for financial instruments	• PSAB at a Glance: Section PS 1201, *Financial Statement Presentation* • PSAB at a Glance: Section PS 2601, *Foreign Currency Translation* • PSAB at a Glance: Section PS 3041, *Portfolio Investments* • PSAB at a Glance: Section PS 3050, *Loans Receivable* • PSAB at a Glance: Section PS 3450, *Financial Instruments* • A Guide to Accounting for Financial Instruments in the Public Sector

Standards Effective April 1, 2023

Similarly, in order to give entities more time to implement any needed changes, PSAB decided to defer the effective date for the Revenue standard, which was originally effective for fiscal years beginning on or after April 1, 2022, by one year to fiscal years beginning on or after April 1, 2023. The Purchased Intangibles and Public Private Partnerships guidance was issued in the current year with an original effective date of April 1, 2023. Refer to the publications provided in the table below for more detailed information.

Revenue

In November 2018, the Board issued new Section PS 3400, *Revenue*. Prior to this, the PSA Handbook only contained guidance on specific transactions such as, taxation, government transfers, etc. As a result, many public sector entities consulted other sources of GAAP when accounting for types of revenue for which the PSA Handbook did not provide specific guidance, which resulted in diversity in practice.

The new standard establishes overall guidance on how to account for and report revenue. The standard makes a distinction between transactions that include performance obligations (exchange transactions) and those that do not include a performance obligation (non-exchange transactions). A performance obligation is an enforceable promise to provide specific goods or services to a specific payor. Based on the definition, in order to identify a performance obligation a public sector entity must be able to identify a distinct good or service and a specific payor. Revenue from transactions with performance obligations is recognized when (or as) the public sector entity satisfies a performance obligation by providing the goods or services to a payor. Therefore, once a performance obligation is identified, an assessment is needed to determine whether revenue recognition occurs over a period of time or at a point in time.

Transactions with Performance Obligations Satisfied at a Point in Time

A performance obligation is satisfied, and revenue is recognized when control of the benefits for a good or service have been transferred to the payor. Some indicators that control has been transferred include, but are not limited to:

- When the payor is able to use or direct the use, sell, or exchange and obtain substantially all the remaining benefits from the good or service; or
- When the payor has hold of the good or service and can use it at their discretion.

If a performance obligation is not satisfied over a period of time (as described in the next section below), then it must be recognized at a point in time considering the above criteria. An example of a transaction where a performance obligation would be recognized at a point in time would be when a public sector entity sells a recycling bin, since after the initial sale transaction the payor controls the asset and there are no further performance obligations for the public sector entity to complete.

Transactions with Performance Obligations Satisfied Over Time

When control of the benefits associated with a good or service passes to the payor over time, then the entity recognizes revenue over a period of time if any of the following indicators are met:

- The payor simultaneously receives and consumes the benefit as the public sector entity fulfils the performance obligation;
- The public sector entity's performance creates or enhances an asset that the payor controls or uses as the asset is created or enhanced;
- The public sector entity's performance does not create an asset with an alternative use to the public sector entity, and the public sector entity has an enforceable right to payment for performance completed to date;
- The public sector entity is expected to continually maintain or support the transferred good or service under the terms of an arrangement; or
- The payor is granted access to a specific good or service under the terms of an arrangement.

A portion of the transaction price allocated to each performance obligation is recognized as revenue as the performance obligation is satisfied. An example of a transaction with performance obligations settled over time would be a college providing a certificate course consisting of weekly lectures over an eight-month period to a student who pays $4,000 up front, since the college must perform multiple performance obligations over a period of time.

Transactions with no Performance Obligations

Some transactions entered into by a public sector entity do not have any performance obligations attached to them. When this is the case, revenue would be recognized when the public sector entity has authority to claim or retain an inflow of economic resources and a past event or transaction that gives rise to an asset has occurred. An example of a transaction without a performance obligation would be a municipality issuing a parking ticket or fine.

Transition

Adoption of the standard will be accounted for as a change in accounting policy and may be applied retroactively with restatement of prior periods or prospectively.

Purchased Intangibles

In November 2020, the Board issued new PSG-8 on purchased intangibles. Prior to this, the PSA Handbook prohibited the recognition of purchased intangibles in the financial statements of public sector entities without the PS 4200 series of standards. The main highlights of this new Public Sector Guideline include:

- The definition of a purchased intangible, which are identifiable non-monetary economic resources without physical substance, acquired through an arm's length exchange transaction between knowledgeable, willing parties who are under no compulsion to act.
- Purchased intangibles are recognized as assets when they meet the definition of an asset and the general recognition criteria in Section PS 1000, *Financial Statement Concepts*. Look to Section PS 3210, *Assets*, for guidance on applying the asset definition.
- This Public Sector Guideline does not provide specific in-depth guidance on the accounting for purchased intangibles. Therefore, the following guidance should be followed when determining how to account for purchased intangibles.
  - The definition of an asset from Section PS 1000.
  - The guidance on the asset definition include in Section PS 3210.
  - The recognition, measurement, and disclosure concepts in Section PS 1000; and
  - The GAAP Hierarchy in Section PS 1150, Generally Accepted Accounting Principles. See above for the amendments already issued to the GAAP Hierarchy.
- Purchased intangibles are classified as non-financial assets.
- This Public Sector Guideline shall be applied retroactively or prospectively in accordance with Section PS 2120, *Accounting Changes*.

The Board also amended Sections PS 1000, and Section PS 1201 to allow for the recognition of purchased intangibles and removed the disclosure requirements for unrecognized purchased intangibles as a result of the issuance on this new guideline.

Public Private Partnerships

An issue that was identified as a priority in PSAB's 2014 Project Priority Survey was accounting for public private partnerships. These types of arrangements are becoming more common across Canada as government entities look for new ways to finance capital projects, and authoritative guidance on how to account for them was needed. In April 2021, the Board issued new Section PS 3160, *Public Private Partnerships*. The main features of the new standard include:

Scope

- This section applies to public private partnerships between a public sector entity and a private sector partner for infrastructure-project delivery with risk allocation that provides for public sector control of the asset at any point during the arrangement and in which the private sector partner satisfies all the obligations required.
- The private sector partner is obligated to;
  - design, build, acquire or better new or existing infrastructure.
  - finance the transaction past the point where the infrastructure is ready for use; and
  - operate and/or maintain the infrastructure.

Recognition

- Where infrastructure is acquired or bettered through a public private partnership, it is recognized as an asset of the public sector entity when the public sector entity controls;
  - The purpose and use of the infrastructure.
  - Access to the future economic benefits and exposure to risks of the infrastructure asset; and
  - Significant residual interest in the infrastructure, if any, at the end of the public private partnership's term.
- At the same time that the infrastructure asset is recognized an offsetting liability is also recognized. The type of consideration provided to the private sector partner determines the type of liability that is recognized. This distinction will impact subsequent measurement of the liability.
  - Where the consideration is cash or another financial asset the public sector entity recognizes a financial liability (financial liability model).
  - Where the consideration is the granting of rights (such as the right to charge end users) the public sector entity recognizes a performance obligation (user-pay model).

Initial Measurement

- An infrastructure asset is initially recognized at cost. Where the cost of acquiring or constructing the infrastructure is both determinable and verifiable such as from a procurement process or contractual agreement, these amounts would be used to initially measure cost.
- Where the cost information is not readily determinable or verifiable, the cost is then equal to the estimate fair value of the asset at the transaction date.
- The offsetting liability is initially measured at the same value as the infrastructure asset less any amounts already paid to the private sector partner.

Subsequent Measurement

- The infrastructure would be accounted for similar to other assets and would be amortized over its useful life in a rational and systematic manner.
- The subsequent measurement of the liability will depend on the model used for initial measurement.

- Under the financial liability model, the financial liability would be subsequently measured at amortized cost using the effective interest method.
- Under the user pay model the liability is subsequently reduced as revenue is recognized by the private sector partner based on the terms of the public private partnership arrangement.

Transition

- The section may be applied retroactively or prospectively as follows:
  - Prospective application is used for an infrastructure asset and related liability where control of the infrastructure asset arose on or after April 1, 2023.
  - Retroactive application is used with or without prior period restatement, for an infrastructure asset and related liability where control of the asset arose prior to April 1, 2023 and the asset and related liability have not been previously recognized.
  - Retroactive application is also used with or without prior period restatement, for an infrastructure asset and related liability where control of the asset arose prior to April 1, 2023 and where the asset and related liability were previously recognized and now require adjustment upon applying this new section.

Amendment/New Standard	Resources
New Section PS 3400, *Revenue*, on accounting for overall revenue transactions for which there is no specific guidance elsewhere in the PSA Handbook	• PSAB at a Glance: Section PS 3400, *Revenue*
New Section PSG 8, *Purchased Intangibles*	• PSAB at a Glance: PSG-8, Purchased Intangibles
New Section PS 3160, *Public Private Partnerships*	• P3 Accounting: 1 New Standard, 2 Sectors, and the Public-Private Repercussions • PSAB at a Glance: Section PS 3160, Public Private Partnerships – Coming Soon!

The Future of PSAS

The PSAB has completed a few projects that will greatly impact the future of standard setting in the PSA Handbook. The PSAB also has additional projects on the go which seek to greatly change the public sector standards to better meet stakeholder needs both now and in the future. Below are the projects that will impact the future of standard setting such as the International Strategy, as well as other projects on the go.

PSAB's Approach to International Public Sector Accounting Standards

While developing its 2017–2021 Strategic Plan, the Board determined it was the appropriate time to review its approach to International Public Sector Accounting Standards (IPSAS). The Board's approach was to influence the development of IPSAS. However, IPSAS has become a more robust framework over the past few years and some other countries are now adopting or adapting IPSAS for their own use. As a result, the Board decided it should evaluate whether the time and resources spent developing Canadian specific public sector standards is still adding the right level of value and is in the public interest.

The Board issued Consultation Papers in May 2018 and 2019 to obtain feedback on the criteria that would be used to make the decision and on the four options that were under consideration for the international strategy. The four options were:

- Option 1 – Retain status quo:
- Option 2 – Adapt IPSAS principles when developing future standards:
- Option 3 – Adopt IPSAS except when departure is permitted:
- Option 4 – Adopt IPSAS with no exceptions:

The Board reviewed the feedback provided on these Consultation Papers and decided the best way forward at this point in time is Option 2 – adapt IPSAS principles when developing future standards. This approach will apply to all new projects beginning on or after April 1, 2021. As mentioned above The Board has amended Section 1150, *Generally Accepted Accounting Principles* to clarify the GAAP Hierarchy to include the IPSAS as the first accounting framework to consult.

The Board developed criteria that will be used for amending IPSAS principles on future projects to better fit the needs of Canadian stakeholders. The Board will amend a principle in an IPSAS standard if it is contrary to PSAB's conceptual framework, or where PSAB finds the IPSAS principle is not appropriate for application in Canada based on the Canadian public interest. Where PSAB has deviated from IPSAS principles in the development of a standard, reasons for the deviation will be documented in the Basis for Conclusions document.

The Board is currently applying this approach to the development of proposed Section PS 3251 on employee benefits, see below for more information on this project.

PSAB's Draft 2022 – 2027 Strategic Plan

The Board sets out strategic plans to provide broad objectives that will guide them in achieving their public interest mandate. The Board is undertaking this project to develop the Strategic Plan. In May 2021, the Board issued a Consultation Paper seeking comments on the Draft Strategic Plan which will cover the years 2022 to 2027. The Strategic Plan is broken down into three major areas where work will be completed:

- Develop relevant and high-quality accounting standards
  - Continue to develop relevant and high-quality accounting standards in a timely and responsive manner to support a well-functioning Canadian public sector and a strong Canadian economy.
  - Refine and enhance our development processes be exploring varied project governance models outside of the use of traditional task forces to promote flexibility and adaptability.
  - Implement the new International Strategy.
- Enhance and strengthen relationships with our stakeholders
  - Proactively engage and effectively communicate with our stakeholders. Establishing expert panels, focus groups and advisory committees to help solicit stakeholder feedback.
  - Increase engagement with Indigenous Governments as it is understood that Indigenous Government stakeholders are under-represented within the standard setting process.
  - Explore the use of customized reporting. Using the new Reporting Model as a benchmark, continue to explore the application of a customized reporting approach.
- Enhance and strengthen relationships with other standard setters.
  - Strengthen relationships with the IPSASB to collaborate on and influence the development of IPSAS. Reviewing IPSASB meeting notes to provide briefing notes to Canadian representatives, submitting and encouraging Canadian stakeholders to submit PSAB comments to IPSASB documents for comments.
  - Continue to work together with the IASB, the AcSB, and the AASB. This will include staying informed and up to date on their standard setting activities and, collaborating on responses to relevant documents for comment.
- Support forward-looking accounting and reporting initiatives.
  - Support and encourage ESB reporting in the Canadian public sector by ensuring ESB themes are considered a part of current and future standard setting.
  - Consider developing Canadian-specific ESG reporting guidance such as non-authoritative disclosure guidance on climate or guidance on reporting. Monitor the potential for a new sustainability standard setting Board to be established by the IFRS foundation and consider leveraging that Boards work.
  - Stay engaged in other forward-looking areas of financial reporting.

The Consultation Paper closed for comment on October 6, 2021 and the Board is deliberating feedback to decide on next steps.

Exposure Draft – Employment Benefits

A project on employee benefits was identified as a top priority in PSAB's 2014 Project Priority Survey. The project was needed as new types of pension plans have been introduced and there have been changes in the related accounting concepts since existing Sections PS 3250, *Retirement Benefits*, and Section PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*, were issued many years ago. The plan is to issue new Section PS 3251, *Employee Benefits* to replace the two existing sections.

The Board issued an Exposure Draft in July 2021 highlighting the new Section PS 3251. The Board created the Exposure Draft using principles taken from IPSAS 39, Employee Benefits as the starting point. The principles were amended if they were contrary to PSAB's conceptual framework or not appropriate for application in Canada based on the Canadian public interest. The key proposed changes include:

- For Deferral Provisions
  - For actuarial gains and losses, the deferral and amortization approach would no longer be used.
  - Revaluations of the net defined benefit liability (asset) which, include actuarial gains and losses are recognized immediately on the statement of financial position within the accumulated other component of net assets.
  - These revaluations would not be reclassified to surplus or deficit in a subsequent period.
  - Plan assets would be measured at market value.
- The Discount Rate
  - The discount rate used would depend on the funding status of the plan.
  - For a fully funded plan where the projected balance of plan assets exceeds projected benefit payment obligations for all project periods, the discount rate used would be the expected market-based return on plan assets.
  - For an unfunded plan where the projected balance of plan assets does not exceed projected benefit payment obligations for any projected period, the discount rate used would be the provincial governments bond rates.
  - Lastly, for partially funded plans where the projected balance of plan assets exceeds projected benefit periods for fewer than all projected periods, the discount rate would be a single discount rate that reflects the fully funded rate for periods where the balance of plan assets is projected to be greater than or equal to projected benefit payments and the unfunded rate for all other periods.
- Additional proposed changes include
  - The net interest on the net defined benefit liability (asset) would be determined by multiplying the net defined benefit liability (asset) by the rate used to discount the post employment benefit obligation.
  - Minor modifications to the guidance for joint defined benefit plans including changing legal terminology to accounting terminology and directing entities to use multi-employer plan guidance.

The new standard would have an effective date of April 1, 2026 and would require retroactive transition. The Board is seeking feedback on the proposal and stakeholders are encouraged to respond to the Exposure Draft, which can be accessed here, by November 25, 2021. The Board will review all feedback received by the deadline and determine next steps.

Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector

In 2010, the Board decided to undertake a project to review the conceptual framework for the PSA Handbook to ensure it is still relevant and that it properly reflects and is grounded in the public sector environment. The Board issued three Consultation Papers from 2011 to 2015 and a Statement of Concepts in May 2018. The Board used the feedback from those to develop an Exposure Draft in January 2021 on a revised conceptual framework. The Exposure Draft proposes replacing the existing conceptual framework, which consists of Section PS 1000, *Financial Statement Concepts*, and Section PS 1100, *Financial Statement Objectives*, with a revised conceptual framework that would include 10 chapters:

- Introduction to the Conceptual Framework – this chapter will define the conceptual framework and outline the needs and objectives.
- Characteristics of Public Sector Entities – This chapter will build upon and replace Appendix A, Unique Characteristics of Government. Identifying the characteristics of public sector entities will result in concepts and standards appropriate to the public sector.
- Financial Reporting Objective – This chapter will identify the primary users as the public and its elected or appointed representatives. It will also identify the financial reporting objectives as the need to provide information for accountability purposes and the broad financial reporting accountabilities.
- Role of Financial Statements – This chapter will create a link between financial reporting and financial reporting in financial statements.
- Financial Statement Foundations – This chapter will clearly identify the foundations that currently underlie the existing conceptual framework.
- Financial Statement Objectives – This chapter will build upon and revise the objectives of Section PS 1100.
- Financial Statement Information – Qualitative Characteristics and Related Considerations – This chapter will establish the qualitative characteristics of financial information and considerations for including this information in the financial statements.
- Elements of Financial Statements – This chapter will define the four elements in the financial statements: assets, liabilities, revenues, and expenses.
- Recognition and Measurement in Financial Statements – This chapter will cover the general recognition and measurement criteria, the concepts here will remain unchanged from the existing conceptual framework.
- Presentation Concepts for Financial Statements – The PSAB felt that some of the concepts in Section PS 1201 should be moved or mentioned in the conceptual framework. This chapter will include these, as well as new presentation concepts to promote the preparation of understandable financial statements.

The Exposure Draft also proposes moving the recognition exclusions related to: natural resources and crown lands that have not been purchased, developed and inherited intangibles, and works of art and historical treasures, from the conceptual framework and instead include them in the new proposed Section PS 1202 descried below. The Exposure Draft closed for comment on June 30, 2021 and the Board is currently deliberating feedback received from stakeholders that responded and will decide next steps.

Exposure Draft – Consequential Amendments Arising from the Proposed Conceptual Framework

The PSAB issued this Exposure Draft at the same time as it released the above Exposure Draft on the conceptual framework. As a result of the issuance of the proposed conceptual framework the PSAB is proposing to amend the PSA Handbook to be consistent with the conceptual framework. The main consequential amendments will impact:

- The withdrawal of the existing conceptual framework and removing any references to the existing conceptual framework from the PSA Handbook.
- Amendments to various standards for references to the term's measurement uncertainty, service capacity, reliability, and materiality.
- Amendments to Section PS 3200, *Liabilities* and Section PS 3210, *Assets*.
- Amendments to Section PS 2100, *Disclosure of Accounting Policies* to consider emerging technology in the displaying of information in the notes.
- Amendments to Section PS 3400, *Revenue*, for refinements to the definition of revenue.
- Amendments to the Introduction to Public Sector Accounting Standards to recognize the new conceptual framework.

Many other minor amendments could be made to the PSA Handbook as a result of the proposed conceptual framework. The Exposure Draft closed for comment on June 30, 2021 and the Board is currently deliberating feedback received from stakeholders that responded and will decide on next steps.

Exposure Draft – Financial Statement Presentation Proposed Section PS 1202

The PSAB considered the relative merits of many reporting models and the inputs from stakeholders and is proposing the issuance of a new Section PS 1202 which will build upon Section PS 1201, *Financial Statement Presentation* to better respond to the need for understandable financial statements. The proposed reporting model would consist of:

- A statement of financial position – Changes are being proposed to this statement to relocate the net debt indicator to its own statement (see below), and separate liabilities into financial and non-financial categories. The statement will be restructured to present total assets, then total liabilities to arrive at the net assets or net liabilities indicator and this will cause the addition of the net assets, or net liabilities component.
- A statement of net financial assets or net financial liabilities – This is a new statement that would display a revised calculation of net financial liabilities. A net financial asset position means there are financial assets to provide services in the future and to settle future financial liabilities. A net financial liability position means there is a need for additional financial assets to aid in settling past financial liabilities, it reflects the entities ability to finance activities, provide services or settler financial liabilities in the future.
- A statement of operations - There are no proposed changes to this statement form what is currently required under existing Section PS 1201.
- A statement of changes in net assets or net liabilities – This is a new statement and will show a reconciliation between the opening and closing balances of net assets or net liabilities. This statement will allow the entity to be transparent about which revenues and expenses are recognized in surplus or deficit and those that are recognized directly in a component of net assets or net liabilities.
- A statement of cash flow – The Board is proposing separating financing activities from other items on the cash flow. This will allow the statement to highlight net cash before financing activities to show whether all of an entities other activity combined resulted in the need to raise cash through financing activities.
- Accompanying notes and schedules.

The Exposure Draft is also proposing the addition of new budget requirements. These new budget requirements include presenting budget figures using the same basis of accounting and following the same accounting principles as actual figures, an acknowledgement on the face of the statements where budget information is not prepared or approved and allowing entities to present amended and approved budget figures.

The new standard would have an effective date of April 1, 2024. The Exposure Draft closed for comment on June 30, 2021. The Board will review the feedback received by the deadline and determine next steps.

Exposure Draft – Consequential Amendments Arising from Financial Statement Presentation, Proposed Section PS 1202

The Board also released an accompanying Exposure Draft to the above on New Section PS 1202 to highlight the consequential amendments that are being proposed to various sections to ensure they are consistent with the proposed reporting model. The proposed consequential amendments would include:

- The withdrawal of Section PS 1201, *Financial Statement Presentation*.
- Amending various standards for references to the withdrawn Section PS 1201.
- Amending references to various items throughout the PSA Handbook, including references to net debt, changes in net debt, and the statement of remeasurement gains and losses.
- Introducing the terms financial instrument assets and financial instrument liabilities.
- Recognizing financial liabilities and non-financial liabilities and acknowledging the components of net assets and net liabilities; and
- The introduction of new effective dates and transitional provisions relating to these proposed changes.

The Exposure Draft closed for comment on June 30, 2021 and the Board is currently deliberating feedback received from stakeholders that responded and will decided on next steps.

Consultation Paper – Government Not-for-Profits

While developing its 2017-2021 Strategic Plan, the Board signalled its intent to assess the specific needs of government not-for-profit organization (GNFPO) stakeholders and to assess if there is a need for some public sector accounting standards to apply differently to this particular group. The Board issued a Consultation Paper in May 2019 seeking stakeholder feedback on:

- The future trends in the GFNPO sector and their impact on financial reporting;
- Any additional significant GNFPO financial reporting concerns not already captured in the Consultation Paper;
- Whether there should be uniform accounting and financial reporting between governments and GNFPOs;
- Whether it would be beneficial for all GFNPOs to use the same financial reporting standards; and
- Whether financial statement users would benefit from having all not-for-profit organizations (NFPO), including both public sector and private sector NFPOs, within each subsector present comparable financial information.

The Board reviewed the feedback received on this first Consultation Paper and in January 2021 the Board issued a second Consultation Paper on this strategy. The main points of the Consultation Paper include:

- The Board is proposing three options for the GNFP Strategy
    - Option 1: Status quo – continue with the existing set of standards allowing GNFPOs to apply PSAS with or without the PS 4200 series.
    - Option 2: Incorporate the PS 4200 Series into the PSAS handbook with potential customizations – review and amend the PS 4200 series where appropriate and include it

into the PSA Handbook. The existing PS 4200 series would be reviewed to determine if they should be retained and added to PSAS.

- Option 3: Apply another Source of GAAP – There are two approaches under this option, one is to direct all GFNPOs to follow CPA Canada Handbook – Accounting Part III, and the other is to direct specific identified GNFPOs to follow CPA Canada Handbook – Accounting Part III.

- The Board evaluated these options considering the users of the financials statements and their needs, the comparability and consistency of the financial information, the sustainability and the transitional considerations that would be required under each option.
- Based on these criteria the Board is recommending Option 2, where the PS 4200 series is incorporated into the PSA Handbook with potential customizations.

The consultation paper closed for comment on June 30, 2021 and the Board is currently deliberating feedback received from those stakeholders that responded and will decide next steps.

Public Sector Accounting Discussion Group

The Public Sector Accounting Discussion Group (PSADG) is a regular public forum at which issues arising on the application of the PSA Handbook can be discussed. The group meets two times a year and consists of members that include preparers, auditors, and users of government and government organization financial reports. The group's purpose is to assist the Board regarding issues arising on the application of the PSA Handbook and other areas of concern regarding public sector financial reporting, including emerging issues and issues on which the Board seeks advice. While the group does not issue any authoritative guidance or interpretations, as only the Board has the ability to do so, the group's meeting summaries provide meaningful insights on the application of the standards that can be used as a resource. These meeting summaries are available on the FRAS Canada website or by clicking here. During the group's November 2019 and July 2020 meetings, the following topics were discussed:

- **PSAB's proposed new reporting model: Two exposure draft proposals:** Discussion on the proposal to create two categories of liabilities, financial and non-financial, and whether the distinction between them is clear;
- **Roundtable on emerging issues:** Discussion on emerging issues in public sector financial reporting;
- **Government not-for-profit organizations (GNFPOs): Changing financial reporting frameworks:** Discussion on the private sector counterparts aspect of the definition of an GNFPO and the impact of controlled profit-oriented entities on the classification of a government organizations as a GNFPO;
- **Issues applying the Modified Retrospective Transition Method in Section PS 3280, *Asset Retirement Obligations*:** Discussion on applying the modified retrospective method of transitioning to Section PS 3280 to two scenarios; 1. A building constructed with asbestos when the legislation requiring its removal is enacted after the construction date and 2. A fully amortized asset that remains in productive use; and
- The group also considered certain aspects of the second Consultation Paper on government not-for-profit organizations, which was discussed earlier in this publication.

We would encourage public sector entities to keep up to date on topics discussed at these meetings.

Conclusion

As we head closer to the end of the year, now is the time to discuss with your BDO advisor how the impacts of COVID-19, the changes made to the PSA Handbook, and the proposed changes will affect your organization. Reach out to us today.