

## Assurance and Accounting

# Public Sector Accounting Standards (PSAS) Update 2022

### Introduction

It has been a busy year for the Public Sector Accounting Board (PSAB or the "Board"). As public sector entities continue to adapt to the ever-changing market landscape, the Board has been hard at work advancing the progress of various projects such as its international and government not-for-profit strategies, as well as, issuing a revised conceptual framework.

This publication will provide a look at the impacts of the new standards effective over the next few years including Section PS 3280, *Asset Retirement Obligations*, the Financial Instruments suite of standards, and Section PS 3160, *Public Private Partnerships*. As well as, provide an overview of the projects the Board has on the go that will impact public sector entities in the future such as a revised employee benefits standard and new reporting model.

### Standards Effective April 1, 2021

The following amendments to the public sector accounting (PSA) handbook will impact upcoming December 31, 2022 year-ends.

#### 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.
- Updated 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 part of PSAB's International Strategy decision, Section PS 1150, *Generally Accepted Accounting Principles*, has been amended to position 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.

This amendment would only apply to new transactions or other events where the entity currently has no accounting policy outlined and chooses to look outside of the PSA Handbook for guidance in developing an accounting policy. Public sector entities would not be required to revise existing accounting policies determined prior to this amendment.

### Standards Effective April 1, 2022

Public sector entities must consider the impacts the following new and amended standards will have on their March 31, 2023 and December 31, 2023 year ends. Refer to the publications provided in the table at the end of this section for more detailed information on these changes.

#### Asset Retirement Obligations

In March 2018, the Board issued new Section PS 3280, *Asset Retirement Obligations*. Prior to this, the PSA Handbook did not include specific guidance on accounting for asset retirement obligations. In applying this standard in practice, it is very important that public sector entities take the time to perform a thorough analysis when deciding which asset retirement costs are in the scope of this standard. Once the proper scoping has been completed the remaining guidance in the standard should be used to ensure proper recognition, measurement, presentation and disclosure.

#### Scope

The standard only applies to legal obligations, including obligations created by promissory estoppel. This standard impacts tangible capital assets controlled by public sector entities, regardless of whether or not they are in productive use or not.

Some examples of costs that would potentially fall within the scope of this standard include:

- Costs to remove asbestos and fuel tanks;
- Costs incurred to retire an x-ray or similar machine;
- Solid waste landfill closure and post closure liabilities; and
- Costs to remove customizations/ leasehold improvements from leased premises.

To perform proper scoping for asset retirement obligations, management should ensure employees with the appropriate knowledge are involved to ensure all potential asset retirement obligations are identified.

### *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.

For more details on this new standard and its application please refer to our publication [Asset Retirement Obligations \(ARO\): A Practical Approach to Section PS 3280](#).

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

Sections PS 3450, *Financial Instruments*, and PS 2601, *Foreign Currency Translation*, are 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 (for example governments). 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](#).

Over the past few years, the effective date of these Sections was delayed several times 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 hedge accounting, and the accounting treatment for bond repurchases. The Board investigated various options to address these concerns and issued three further amendments to the above standards. The details of the amendments are described below, and these amendments would be effective in the same periods the above standards are first applied.

### *Federal Government Narrow-Scope Amendments*

The Board issued amendments to Section PS 2601 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 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.

### Foreign Exchange Narrow-Scope Amendments

The Board issued amendments to Section 2601 to 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 the 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.

### Presentation Narrow-Scope Amendments

The Board issued amendments to Section PS 1201 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.

The resources listed below provide additional information on the changes discussed in this section of the publication.

Amendment/ New Standard	Resources
New Section PS 3280, <i>Asset Retirement Obligations</i>	<ul style="list-style-type: none"> <li>• <a href="#">Asset Retirement Obligations (ARO): A Practical Approach to Section PS 3280</a></li> <li>• <a href="#">PSAB at a Glance: Section PS 3280, Asset Retirement Obligations</a></li> </ul>
New Sections PS 3450, <i>Financial Instruments</i> ; PS 2601, <i>Foreign Currency Translation</i> ; PS 3041, <i>Portfolio Investments</i> ; PS 1201, <i>Financial Statement Presentation</i> ; and amendments to Section PS 3050, <i>Loans Receivable</i> , on accounting for financial instruments	<ul style="list-style-type: none"> <li>• <a href="#">A Guide to Accounting for Financial Instruments in the Public Sector</a></li> <li>• <a href="#">PSAB at a Glance: Section PS 1201, Financial Statement Presentation</a></li> <li>• <a href="#">PSAB at a Glance: Section PS 2601, Foreign Currency Translation</a></li> <li>• <a href="#">PSAB at a Glance: Section PS 3041, Portfolio Investments</a></li> <li>• <a href="#">PSAB at a Glance: Section PS 3050, Loans Receivable</a></li> <li>• <a href="#">PSAB at a Glance: Section PS 3450, Financial Instruments</a></li> </ul>

### Standards Effective April 1, 2023

Public sector entities must consider the impacts the following new and amended standards will have on their March 31, 2024 and December 31, 2024 year ends. Refer to the publications provided in the table at the end of this section for more detailed information on these changes.

#### Revenue

In November 2018, the Board issued new Section PS 3400, *Revenue*. Prior to this, the PSA Handbook only contained guidance on specific revenue 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 a new public sector guideline (PSG) on purchased intangibles. Prior to this, the PSA Handbook prohibited the recognition of purchased intangibles in the financial statements of public sector entities following PSAS without the PS 4200 series of standards. The main highlights of this new PSG-8 include:

- Defining purchased intangibles as 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*. Section PS 3210, *Assets*, provides guidance on applying the asset definition.
- PSG-8 does not provide specific in-depth guidance on how to account for purchased intangibles, but directs the reader to consider the following guidance in determining how to account for purchased intangibles:
  - The definition of an asset in Section PS 1000 and the additional guidance on the asset definition 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*.
- Purchased intangibles are classified as non-financial assets.
- PSG-8 is 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 of PSG-8.

### **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. After obtaining feedback from stakeholders, 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.

*Examples of P3 arrangements in the scope of this section:*

- The public sector contracts with a private corporation to design, finance and construct a facility. Once completed, the ownership is transferred to the public sector. The public sector then leases the facility back to the private sector, which operates the facility.
- The public sector contracts with the private sector for the design, financing, construction and operation of a new project for a specified time (known as the concession period). During the concession period, the private sector owns and operates the facility, earning a return on its investment through a lease arrangement with the public sector or through user charges. At the end of the period, the public sector takes possession of the facility and has the option of running the facility itself, or giving another contract to the private sector partner.

*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 estimated 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*

- This 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.

The resources listed below provide additional information on the changes discussed in this section of the publication.

<i>Amendment/ New Standard</i>	<i>Resources</i>
New Section PS 3400, <i>Revenue</i>	<ul style="list-style-type: none"> <li>• <a href="#">PSAB at a Glance: Section PS 3400, Revenue</a></li> </ul>
New Section PSG 8, <i>Purchased Intangibles</i>	<ul style="list-style-type: none"> <li>• <a href="#">PSAB at a Glance: PSG-8, Purchased Intangibles</a></li> </ul>
New Section PS 3160, <i>Public Private Partnerships</i>	<ul style="list-style-type: none"> <li>• <a href="#">P3 Accounting: 1 New Standard, 2 Sectors, and the Public-Private Repercussions</a></li> <li>• <a href="#">PSAB at a Glance: Section PS 3160, Public Private Partnerships</a></li> </ul>

## Standards Effective April 1, 2026

### Revised Conceptual Framework

In 2010, the Board decided to undertake a project to review and update 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 conceptual framework guides the Board as it develops new standards or amends existing ones. In developing the revised conceptual framework, the Board sought feedback from stakeholders through three Consultation Papers, a Statement of Concepts and an Exposure Draft. The revised conceptual framework was approved by the Board in June 2022. It will replace the existing conceptual framework, which consists of Section PS 1000, *Financial Statement Concepts*, and Section PS 1100, *Financial Statement Objectives*. The revised conceptual framework includes the following 10 chapters:

- Introduction to the Conceptual Framework – this chapter defines the conceptual framework and outlines the needs and objectives.
- Characteristics of Public Sector Entities – This chapter builds upon and replaces Appendix A - *Unique Characteristics of Government* in existing Section PS 1100. Identifying the characteristics of public sector entities will result in concepts and standards appropriate to the public sector.
- Financial Reporting Objective – This chapter identifies the primary users as the public and its elected or appointed representatives. It also identifies 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 creates a link between financial reporting and financial reporting in financial statements.
- Financial Statement Foundations – This chapter clearly identifies the foundations that currently underlie the existing conceptual framework.
- Financial Statement Objectives – This chapter builds upon and revise the objectives of existing Section PS 1100.
- Financial Statement Information – This chapter establishes the qualitative characteristics of financial information and considerations for including this information in the financial statements.
- Elements of Financial Statements – This chapter defines the four elements in the financial statements: assets, liabilities, revenues, and expenses.
- Recognition and Measurement in Financial Statements – This chapter covers the general recognition and measurement criteria. The concepts here remain unchanged from the existing conceptual framework.

- Presentation Concepts for Financial Statements – This chapter includes some presentation concepts from Section PS 1201, *Financial Statement Presentation*, as well as new presentation concepts to promote the preparation of understandable financial statements.

The revised conceptual framework is expected to be issued in the Handbook in December 2022 and will be effective for fiscal years beginning on or after April 1, 2026, with earlier adoption encouraged.

### The Future of PSAS

The PSAB also has a number of projects on the go which seek to improve public sector standards to better meet stakeholder needs both now and in the future. The following provides a brief overview of these projects.

#### International Strategy

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 past 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 this it's approach to IPSAS was still appropriate.

Based on feedback received from stakeholders, in 2020 Board decided the best way forward was to adapt IPSAS principles when developing future standards. This means that if a new project is undertaken by PSAB and an IPSAS already exists addressing the topic, the principles of that IPSAS will be used as a base for developing the corresponding Canadian PSAS. The Board has developed criteria to provide guidance on when departures from IPSAS principles are permitted. For example, where a principal in IPSAS conflicts with PSAS's conceptual framework or does not meet the Canadian public interest. This new approach is being applied to all new projects beginning on or after April 1, 2021, including the development of the new employee benefits standard discussed below.

#### Exposure Draft – Employment Benefits

A project on employee benefits was identified as a top priority in PSAB's 2014 Project Priority Survey. The project is 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 Board issued an Exposure Draft in July 2021 proposing to replace these two existing standards with new Section PS 3251, *Employee Benefits*. The principles in IPSAS 39, *Employee Benefits*, were used as the starting point in developing this guidance. This Exposure Draft is the first phase of PSAB's multi-phase approach to this project. The focus in this phase is on deferral provisions and discount rate guidance. In future phases, the Board will focus on developing guidance for accounting for non-traditional pension plans and other issues.

The main highlights of the Exposure Draft are as follows:

- **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 net defined benefit liability (asset) and 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.
- **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 rate.
  - 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.
- **Other Proposed Changes**
  - 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 by replacing references to "sponsors" with "participating entities" and directing entities to use multi-employer plan guidance.
  - More detailed disclosure requirements.

The proposed standard would have an effective date of April 1, 2026, and would require retroactive transition. The Board is currently deliberating feedback received on the Exposure Draft.

### **Exposure Draft - Section PS 1202, Financial Statement Presentation**

Related to PSAB's recent approval of the revised Conceptual Framework discussed earlier in this presentation, the Board has also been working on the development of a new reporting model. The Board considered the relative merits of many reporting models and feedback from stakeholders and is proposing the issuance of a new Section PS 1202, which will build upon existing Section PS 1201, *Financial Statement Presentation*, to better respond to the need for understandable financial statements. The Board issued an Exposure Draft in January 2021 proposed a new reporting model that 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. A new third component "accumulated other" would be added to net assets/liabilities.
- **A Statement of Net Financial Assets (Net Financial Liabilities) –** This is a new statement that would display a revised calculation of net debt. A net financial asset position means there are financial assets available 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 entity's 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 from what is currently required under existing Section PS 1201.
- **A Statement of Changes in Net Assets (Net Liabilities) –** This is a new statement that will show a reconciliation between the opening and closing balances of each component 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 statement. This will allow the statement to highlight net cash before financing activities to show whether all of an entity's other activity combined resulted in the need to raise cash through financing activities.
- **Accompanying Notes and Schedules.**

The Exposure Draft also proposes the addition of new budget requirements. These new budget requirements include presenting budget figures using the same basis of accounting, accounting principles, scope of activities and classifications as the actual amounts. As well as, an acknowledgement on the face of the statements where an actual-to-budget comparison could not be completed.

The proposed new standard would have an effective date of April 1, 2026 to align with the effective date of the new conceptual framework. The Board is currently reviewing the extensive feedback received from stakeholders on these proposals in the Exposure Draft as it develops the final standard.

### Exposure Draft - 2022-2023 Annual Improvements

The PSAB has adopted an annual improvement process to correct errors in the wording or provide clarifications. In August 2022, the Board issued its 2022-2023 Annual Improvements Exposure Draft proposing the following changes to the PSA Handbook:

- Replace the term "summary financial statements" with "financial statements" or "financial reports".
- Clarify the Introduction to Public Sector Guidelines and remove outdated guidance related to local governments.
- Update the transitional provisions in Section PS 3160, *Public Private Partnerships*, to explicitly state that early adoption is permitted.
- Change some references to the term "power" to "ability" or "authority" as appropriate, given the use of the term "power" to reference sovereign or equivalent powers in Chapter 5 of the revised conceptual framework.
- Update Section PS 3050, *Loans Receivable*, to address grammatical errors in the decision tree.
- Update PSG 8, *Purchased Intangibles*, to clarify its application to inter-entity transactions.
- Update the designation and numbering of existing appendices in the PSA Handbook to align with categories established by IPSAS; and
- Update the terminology in many standards from "government" to "public sector entity" or "entity" as appropriate.

The Board is deliberating feedback received on the Exposure Draft.

### Government Not-for-Profit Strategy

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 Consultation Papers in 2019 and 2021 seeking stakeholder feedback on the trends and needs in the GNFPO sector and the potential options as it relates to the future of the PS 4200 series of standards. As a result of the feedback received on these Consultation Papers the Board decided that the

best option going forward is to incorporate the PS 4200 series of standards into the PSA Handbook with potential customizations. This will involve the Board reviewing the PS 4200 series of standards to determine if they should be retained and where appropriate amending and including them into the PSA Handbook.

At the June 2022 meeting the Board approved the implementation plan to incorporate the PS 4200 series with potential customizations into PSAS. The Board will undertake a series of standard-level projects to review the PS 4200 series to determine which standards will be included. The Board expects to consider a project proposal to review tangible capital assets and collections at its upcoming December 2022 meeting. The Board will consult stakeholders on all proposed changes before amending the PSA Handbook.

We would encourage GNFPOs to stay up to date on this project and respond to documents issued for comment to provide their feedback. The latest information on this project can be found on the GNFP Strategy page of the FRAS Canada website or by clicking [here](#).

### PSAB's Future Work Plan Consultation

The Board issued a Future Work Plan Consultation for comment in August 2022. Through this consultation, the PSAB asked stakeholders which additional projects should be the Board's next priority when additional resources become available. The Board will review feedback received to decide on which projects to undertake next.

### 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 April 2021, November 2021 and May 2022 meetings, the following topics were discussed:

- **Section PS 3280, Asset Retirement Obligations (AROs): Issues Applying the Modified Retroactive Transition Method –** 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.



- **Section PS 3450: Embedded Derivatives in Own-use Contracts** – Discussion on whether embedded derivatives in own-use contracts are in the scope of Section PS 3450.
- **General Application Standards: Effective Dates and Application** – Discussion on the method of application (i.e., prospective, retroactive) for the general application standards such as Section PS 3200, Liabilities and Section PS 3210, Assets.
- **PSAB's Proposed New Reporting Model: Two Exposure Draft Proposals** – Discussion on benefits, issues and challenges with reporting natural capital in financial statements. Discussion on the proposal to create two categories of liabilities, financial and non-financial, and whether the distinction between them is clear.
- **PSAB Proposed Government Not-for-Profit Strategy** – Discussion on if the proposed GNFP Strategy of PSAS incorporating the PS 4200 series with potential customizations, best meets the Canadian public interest, and ways to implement it.
- **Climate-related Questions to Ask under Existing GAAP** – Discussion on the affect climate change will have on the financial statements of public sector entities and the implications of climate change as required under existing standards.
- **Accounting for Natural Capital: Emerging Issues Discussion** – Discussion on accounting for natural capital in public sector entities financial statements.
- **IPSASB Consultation Paper on Sustainability Reporting** – Discussion on the IPSASB preliminary views that: global public sector sustainability guidance is needed and the IPSASB can use its experience, processes and relationships to develop such standards; the IPSASB should collaborate with other international bodies to develop the general requirements for sustainability and climate-related disclosures; other sustainability topics that are important and why should they be prioritized.

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 changes made, and the proposed changes to the PSA Handbook will affect your organization. Reach out to us today.

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The information in this publication is current as of October 15, 2022.

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