

# PSAB Update 2011



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# Agenda

- Documents for comment
- Government organizations
- Conceptual framework
- What's new



# Effective dates

Date	Topic
April 1, 2015	<b>Governments only</b> F/S Presentation PS 1201, Foreign Currency PS 2601, Financial Instruments PS 3450
April 1, 2014	<b>Governments and government organizations</b> Contaminated Sites PS 3260
April 1, 2012	<b>Government organizations only</b> F /S Presentation PS 1201, Foreign Currency PS 2601, Financial Instruments PS 3450  <b>Governments and government organizations</b> Transfers PS 3410, Tax Revenue PS3510
January 1, 2012	<b>Government NFP organizations only</b> Introduction, PS 4200 Series



## Documents for comment

- Amendments from 3450
- Handbook improvements
- Terminology
- Related parties



# Amendments from PS 3450

- Deleted distinction between temporary and portfolio investments when temporary investments are considered cash equivalents (highly liquid)
- Removed exclusion of “pooled investments’ as restriction applied to using market values
- Conforms definition of effective rate method



# Handbook Improvements

- PS 2400 – meaning of “completion date” is not currently explained
- PS 2500 – gains or losses inter-entity sales or transfers eliminated from the statement of operations of transferring entity
- PS 2510 – OCI rather remeasurement gains and losses when becomes GBE
- PS 2700 – editorial re: surplus/ deficit verses income and OCI



# Handbook Improvements

- PS 3050 – clarifies loans paid from future appropriations/with concessionary terms/restructurings are expenses
- PS 3070 – removes sinking fund scope limitation
- PS 3230 – clarifies derecognition disclosure requirements
- PS 3390 – clarifies that derivatives are not contractual obligations



# Update of Terminology

- PSAB agreed to act as task force
- PSAB had access to all mark-up of all proposed changes
- Question was whether to expose the entire “black-lined” Handbook or not?
- Due process not compromised as ED is only document required



# Update of Terminology – Sections 1000, 1100, 1201

- Definition of government
- Revenue and expense definitions not applicable to OGOs
- Characteristics are different
- Many references to nature of “government” operations etc.
- Being reviewed for comprehensive approach



# Update of Terminology – Sections 2400, 3050, 3230

- PS 2400 guidance only for announced intentions of new legislation or exercise of authority under existing legislation
- PS 3050 needs guidance relating to OGOs process of write-offs
- PS 3230 needs guidance on debt issued on behalf of OGOs and OGOs accounting



# Update of Terminology – Sections 3310 and 3410

- PS 3310 needs guidance on applying loan guarantees of GOs current focus on governments only
- PS 3410 undergoing assessment through “Appropriations” standard development



# Related Parties

- Definition separated from measurement of transactions (June 2011)
- Part V – Accounting addressed both definition and measurement
- Invitation to Comment on definition and disclosure
- Issue Paper on measurement to determine practices



# Related party disclosure

- No disclosure if no transaction has taken place
- No disclosure required if transaction takes place in normal client/recipient relationship and at conditions reflecting an arm's length transaction
- Disclosure of unrecognized transactions is required
- Salary, expense allowances are excluded from disclosure



# Related party definition - entities

- Entities that have control or are controlled by another
- Entities subject to common control
- Entities that share control or subject to shared control
- Proposal excludes entities that are significantly influenced



# Related party definition - individuals

- Key management personnel includes someone that has authority and responsibility for planning, directing and controlling activities
- Close family members of key management personnel



# Related party general

- No disclosure for inter-entity transactions within a consolidated reporting entity – so GRE of overall government not affected
- Disclosure of key management personnel and close family members required for all reporting entities including their consolidated entities



# Related party transactions

- Issues paper seeking input
  - Centrally managed assets and liabilities
  - Entity managed assets and liabilities
  - Cost allocation and recoveries
  - Contributed goods and services



# Measuring RP transactions

- Issues paper seeking input
  - Carrying amount
  - Exchange amount
  - Fair value
  - Fair value only when it has commercial substance



# Government organizations

- Appropriations
- Not-for-profit
- Future revenue requirements



# Appropriations

- When an organization is directed by legislation or regulation or chooses to issue financial statements using the PSA Handbook then it applies it in total
- May be “authorized” on a cash basis creating differences between actual results
- SOP considers disclosure, recognition and presentation



# Appropriations

- The PSA Handbook does not have “equity” only revenue and expense
- Recognition
  - Contributed surplus = amounts paid in by equity holders (element issue)
  - Revenue = generated from operations
- Presentation if revenue:
  - Part of total revenue or below net cost



# Appropriations

- An entity recognizes the use of an appropriation as revenue when it has been authorized by an appropriation or supply act or other legislation and the entity has made expenditures for the purpose and amount set out in the governing conditions under the legislation



# Conceptual Framework



# Task force members

- Peter Devries Retired Finance Canada
- Kent Kirkpatrick CAO Ottawa
- Clyde MacLellan AAG Canada
- Bill Matthews, Treasury Board Canada
- Mike Ruta, CAO Winnipeg
- Merwan Saher, AG Alberta
- Bernard Turgeon, ADM Finance Quebec
- Cindy Veinot, Partner Deloitte
- Cheryl Wenezenki-Yolland ADM Education BC
- Nickie Young, Prof. St. Mary's University NS



# Background

- Project proposal December 2010
- CFTF 2 meetings April and June 2011
- To review concepts underlying financial performance: user needs, elements, recognition & measurement
- Opportunity for all stakeholders to input
- Apply to governments and their organizations using PSA Handbook



# Proposed timetable

- Consultation 1 – **issued** – key characteristics
- Consultation 2 – spring 2012 – users, qualitative characteristics, objectives, elements, recognition and measurement
- SOP – December 2012

Reflects the need for ongoing consultation with stakeholders to raise issues



# Some preliminary TF views

- No need to revisit accrual accounting
- Maintain existing mixed measurement model
- Focus on maintaining net assets for now
- Keep budget to actual comparisons
- Increase contextual material
- Focus on financial statements



# Key characteristics

1. Public accountability
2. Multiple objectives
3. Sovereign powers and responsibilities
4. No equity ownership
5. Financial frameworks set by legislation
6. Importance of the budget
7. Governance structures
8. Types of resources
9. Non-exchange issues



# PSAB What's New



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# New projects



# Joint NFP Review

- Purpose is to align existing NFP standards with the Accounting and PSA Handbooks
- JNFP task force must explain reasons for any differences
- Determine if standards such as endowments are applicable more broadly



# NFP issues

- Fund accounting and presentation
- Collections
- Tangible capital assets
- Intangible assets
- Consolidation
- Contributions



# Fund accounting and presentation

- Restricted fund vs. deferral method
- Net debt and statement of changes in net debt
- Cash flow statement
- Statement of remeasurement gains and losses



# Collections

- Art and historic treasures not part of collection are addressed in 4230 – Capital Assets - not amortized
- PSA Handbook does not permit recognition of art and historic treasures as assets – measurement
- PS 4240 – Collections permits a choice



# Tangible capital assets

- 4230 includes a “size” test to account for tangible capital assets – revenue less than \$500,000
- PSA Handbook has no such test – all TCAs accounted for
- Part II of the Accounting Handbook does not have a size test either



# Intangible capital assets

- 4230 includes intangible capital assets in its scope
- PS 1000 excludes all intangibles from recognition
- The JNFP task force will need to address whether PSAB should remove or sustain these recommendations



# Consolidation

- 4250 requires disclosure of significant influence
- 4250 uses economic interest as an indicator of control
- PS 1300 does not include these concepts
- 4250 permits non-consolidation of certain entities
- PS 1300 would not permit such an approach



# Contributions

- 4210 permits either the restricted method or the deferral method
- PS 3410, Government Transfers recognizes revenue based on liability definition
- This is a major to be discussed by the JNFP task force



# Assets

- Project to provide guidance on the definition similar to liabilities PS 3200
- Likely to include contingent assets and contractual assets similar to sections on contingent liabilities and contractual obligations
- Can be done without finalizing framework



# Task force members

- Doug Lynkowski (Chair) OCG Alta.
- Andre Miville OCG Quebec
- Dianne Peressini OCG Canada
- Jane Borland OCG Saskatchewan
- Evangeline Colman-Sadd OAG Nova Scotia
- Brian Jones OAG British Columbia
- Nola Buhr Professor Saskatchewan
- Suzie Gignac E & Y



# Types of assets

- Project will deal with things that meet the definition of an asset
- It will consider whether Crown lands, sovereign rights, mineral deposits, ability to regulate activities such as licensing, and intangibles are assets
- It will not address recognition issues only those items that meet the definition



# Key issues to be addressed

- What is meant by “control”?
- What is meant by “service potential”?
- Does the future benefit need to accrue to the reporting entity?
- When should a contingent asset be recognized vs. disclosed
- What should be disclosed about contractual rights?



# Control of the economic resource

- Very preliminary discussions have included the following ideas:
  - It can benefit from the resource
  - Generally deny or regulate access to that benefit by others
  - Is exposed to any risk of loss related to the resource
  - Regulation is not control



# Service potential

- Agreed that the term needs to be redefined
- Issues arose as to whether it just non-financial assets or all assets including financial assets
- Staff were directed to further explore the issue



# Future economic benefit

- The TF is attempting to determine how benefits flow to an entity
- If they do not flow to the entity, then is it the entity's asset
- Trusts will likely need to be considered



# Power and rights to tax

- Task force used this as an example
- Constitution is an event
- Enabling legislation is an event
- Taxable event occurs at various times
- When should taxes be recognized as assets? (PS 3510 is a reference)



# Revenue

- June 2011 PSAB revised approach
- Many revenues not exchange-based
- Addresses non-exchange revenue other than taxes, transfers, contributions and gains and losses etc.



# Revenue

- Many non-exchange for example:
  - Rates and charges set to support access e.g., transit
  - Fines and penalties
  - Granting rights such licenses
- Means identifying separate types of performance obligations for various revenue sources



# Project proposals to develop

- Asset retirement obligations
- Impairment of non-financial assets
- Service concession arrangements
- Research report on long term sustainability



# Questions

Thank you for your time!

