

Modification of PSAB's GAAP Hierarchy — Basis for Conclusions Section PS 1150

FOREWORD

The primary objective of a Basis for Conclusions document is to set out how the Public Sector Accounting Board (PSAB) reached its conclusions. As well, it sets out significant matters arising from comments received in response to the proposals exposed and indicates how PSAB has dealt with the issues raised.

These documents are intended to assist financial statement users, preparers, auditors and other parties interested in public sector financial reporting in understanding the rationale PSAB follows when developing or amending standards, or strategic decisions.

This document has been prepared by staff of PSAB. It does not form part of the CPA Canada Public Sector Accounting (PSA) Handbook nor is it part of public sector generally accepted accounting principles. Basis for Conclusions documents also do not include any guidance on the application of the relevant Section or Guideline.

June 2021

TABLE OF CONTENTS

	Paragraph
Background	1-4
Objective of the amendment	5-9
Transitional provisions	10-12
Other matters	13-14

BACKGROUND

1. On May 5, 2020, PSAB voted to approve "Option 2 – Adapt IPSAS principles when developing future standards," described in Consultation Paper 2, as its international strategy. This decision resulted from extensive consultation with Canadian stakeholders.
2. Under Option 2, PSAB will continue to develop Public Sector Accounting Standards (PSAS), but future standards would be based on the principles in International Public Sector Accounting Standards (IPSAS). This means that if a project is undertaken and an IPSAS already exists, the principles of that IPSAS will be used as a base for developing the corresponding Canadian PSAS. The Board developed Criteria for Modifying and Reviewing IPSAS Principles to provide guidance on when departures from IPSAS principles are permitted.
3. As part of its decision to pursue Option 2 as its international strategy, PSAB has elected to update the GAAP hierarchy in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, to position IPSAS as the first accounting framework to consult among pronouncements issued by other bodies authorized to issue accounting standards.
4. Prior to these amendments, the PSA Handbook outlined several sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances, with no specific hierarchy previously outlined between the sources. These sources included accounting pronouncements published with the authority of the Canadian Accounting Standards Board, International Accounting Standards Board (IASB), U.S. Federal Accounting Standards Advisory Board (FASAB), U.S. Governmental Accounting Standards Board or International Public Sector Accounting Standards Board (IPSASB).

OBJECTIVE OF THE AMENDMENT

5. A key objective of the amendments was to outline when consulting pronouncements issued by other bodies authorized to issue accounting standards as outlined in paragraph PS 1150.19, pronouncements issued by IPSASB are to be considered first. PSAB thinks that this amendment is in keeping with its updated international strategy, where future PSASs are to be developed using IPSAS principles when an equivalent IPSAS exists.
6. PSAB thinks that if a new transaction or event occurs and it is necessary to consult pronouncements issued by other bodies authorized to issue accounting standards, it is logical to consult IPSASs first as a future PSAS on the transaction or event would likely be based on those IPSAS principles even if some modifications to those principles could be possible. Consequently, if PSAB determines that there is a need to develop a standard for a new transaction or event and adapts

an IPSAS that already exists, transition to this new standard will be easier for public sector organizations. This would be because they would likely have already considered using the IPSAS pronouncements because of this modification to the GAAP hierarchy.

7. PSAB also thinks that by prioritizing IPSAS, there will be greater consistency among public sector organizations related to the accounting for transactions or events not covered in the PSA Handbook.
8. Respondents to the Exposure Draft raised concerns about the proposed wording of the amendments. They noted that the amendments could be interpreted as a requirement to apply IPSAS, not just consider or consult IPSAS, when PSASs are silent on a matter. A requirement to apply IPSAS when PSAS are silent would not allow for the use of professional judgment. The respondents also noted that IPSAS may not be:
 - (a) suited to the Canadian environment;
 - (b) consistent with PSAB's Conceptual Framework or other primary sources of GAAP; or
 - (c) the most relevant in the circumstances.
9. This type of application was not PSAB's intention when amending Section PS 1150. The Board has updated the wording of the final amendments to make its objective clear. While IPSAS pronouncements are to be consulted first when it is necessary to consult pronouncements issued by other bodies authorized to issue accounting standards, Canadian stakeholders can use their professional judgment and consult pronouncements by other standards setters, if, in their view, the IPSAS pronouncement is not:
 - (a) suited to the Canadian environment;
 - (b) consistent with PSAB's Conceptual Framework or other primary sources of GAAP; or
 - (c) the most relevant in the circumstances.

TRANSITIONAL PROVISIONS

10. Several respondents indicated that the proposed effective date of April 1, 2021, would be onerous for retrospective and even prospective application of the new GAAP hierarchy requirements. They noted that the timeframe was too short to analyze the impacts of applying this amendment retroactively or prospectively and to determine how policies should be revised. Given this feedback, PSAB agreed that the option to apply the amendments retroactively or prospectively should be removed.
11. Given the short timeframe to implement the change in GAAP hierarchy, PSAB considered the various options and concluded that the amendments be applied only to new transactions or other events for which the entity has no existing accounting policy. The amendments would not require stakeholders to revise existing accounting policies.
12. PSAB concluded that applying the change in the GAAP hierarchy only to new transactions or events where there is no existing policy would alleviate concerns about the short timeframe. With no requirement to adjust existing accounting policies or opening balances, as would be the case with prospective or retroactive treatment, the transition impact on stakeholders would be minimal and more consistent with the intent of the Board's updated international strategy.

OTHER MATTERS

13. A few respondents felt that IPSASs should simply be listed first in paragraph PS 1150.19, with no other changes to the paragraph. While PSAB has updated the paragraph to list IPSASB pronouncements first, the Board concluded that it is still beneficial to explicitly outline a preference to consult IPSAS first for the reasons outlined above.
14. Finally, some respondents expressed concern that IPSAS is not available in French, which may make it difficult for some stakeholders seeking to consult IPSAS when PSAS is silent. PSAB understands the difficulties in using IPSAS as a secondary source of GAAP for French stakeholders and will consider opportunities to address this concern in the future. Nevertheless, it remains the Board's decision to align the GAAP hierarchy with its international strategy and position IPSAS as the first framework to consult when PSAS is silent.