

2019-2020 Annual Improvements to Public Accounting Standards

FOREWORD

In November 2020, the Public Sector Accounting Board (PSAB) released the 2019-2020 annual improvements to CPA Canada Public Sector Accounting (PSA) Handbook and Statements of Recommended Practices (other guidance). PSAB has approved for publication the contents of this document setting out its rationale for making these improvements.

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

This document has been prepared by staff of PSAB. It does not form part of the 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.

November 2020

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BACKGROUND

1. In June 2018, PSAB adopted an annual improvements process to correct errors in the wording, to clarify the PSA Handbook or other guidance, or to correct relatively minor unintended consequences, oversights or conflicts. These amendments are bundled together to reduce the number of individual changes to the standards or other guidance. Major or narrow-scope amendments to the standards or other guidance are not included in the annual improvements process.
2. PSAB released the Exposure Draft, "2019-2020 Annual Improvements to Public Sector Accounting Standards," in January 2020. The Exposure Draft proposed three main categories of amendments to:
 - (a) Clarify transitional provisions for consequential amendments;
 - (b) Update disclosure requirements in individual standards relating to contractual rights; and,
 - (c) Replace the term "contingency" with "contingent assets and contingent liabilities".
3. Respondents generally agreed with the proposals set out in the Exposure Draft. The specific issues addressed in this improvements project, including substantive comments received on the Exposure Draft and any changes made in response to those comments, are as follows.

CLARIFYING TRANSITIONAL PROVISIONS FOR CONSEQUENTIAL AMENDMENTS

4. The Exposure Draft proposed amendments to the Introduction to Public Sector Accounting Standards (Introduction) to clarify the method of application and effective date of consequential amendments. Overall, respondents generally supported the intent of the amendments to the Introduction. They noted that the amendments to the Introduction are better than the current lack of guidance on transitional provisions for consequential amendments. However, some respondents felt that the change in the Exposure Draft did not entirely address the issues at hand.
5. Some respondents noted that transitional provisions (i.e., method of application and effective date) should be noted in the relevant standard where the consequential amendments are made, and not just in the Introduction. The reasons provided varied. Two respondents noted that it is highly unlikely that preparers and practitioners will look in the Introduction for this clarification, as they normally refer to the transitional guidance specified in each applicable standard. Another

respondent noted that adding information on method of application and transition to the Introduction will not assist PSA Handbook users identify when there has actually been a consequential amendment made to a specific Section. They noted that including transitional provisions for consequential amendments in each specific Section make it easier to identify consequential amendments.

6. To evaluate whether transitional provisions for consequential amendments should be included in individual Sections, as opposed to only the Introduction, PSAB reviewed the approach taken by other standard setters on transitional provisions and consequential amendments. The Board found that the effective date and method of application for a standard are noted in the actual standard under IFRS® Standards, International Public Sector Accounting Standards, Part II of the CPA Canada Handbook – Accounting and Part III of the Handbook – Accounting. The Board also agreed with the respondents that it is unlikely for preparers and practitioners to look solely to the Introduction for this information, and that without including this information in individual standards, it may be difficult for users to identify when a consequential amendment has actually been made.
7. Based on stakeholders' feedback and the current practices of other reputable standard setters, PSAB amended the Introduction to clarify transitional provisions for consequential amendments. However, the Board will also update individual standards with the following information when consequential amendments are made:
 - (a) information on when an amendment has been made;
 - (b) identification of what paragraphs have been amended;
 - (c) the date the amendment is effective; and,
 - (d) how the amendment should be applied.
8. Two respondents also noted that the Introduction should clearly state that when an entity decides to early apply a new or amended standard, any applicable consequential amendments must be applied early as well. Both respondents noted that the consequential amendments should not be available for early adoption if the amended standard has not been early adopted. They noted that the Introduction should be amended to reflect this. PSAB recognizes that these are clarification points in how new standards and consequential amendments should be adopted. They provide clearer guidance and ensure amendments are adopted at the same time as the related standards.
9. PSAB has adjusted the wording of the Introduction to clarify that when an entity decides to early apply a new or amended standard, any applicable consequential amendments must be applied early as well. The Introduction has also been updated to clarify that the consequential amendments should not be available for early adoption if the amended standard has not been early adopted.
10. Finally, one respondent noted that there may be unique circumstances where consequential amendments cannot be implemented by the same effective date as the new or amended standard that give rise to the consequential amendments. The respondent noted that in these situations, the consequential amendments may need to be extended. PSAB believes that these circumstances are expected to be rare. As such, unique circumstances where consequential amendments cannot be implemented by the same effective date can likely be dealt with through guidance in individual PSA Handbook Sections when such circumstances arise.

UPDATING DISCLOSURE REQUIREMENTS IN INDIVIDUAL STANDARDS RELATING TO CONTRACTUAL RIGHTS

11. In 2015, PSAB issued CONTRACTUAL RIGHTS, Section PS 3380, which required public sector entities to determine if they have contractual rights that need to be disclosed. The Exposure Draft proposed that the disclosure requirements in individual standards be updated to reflect this requirement where applicable.
12. Respondents to the Exposure Draft strongly supported the amendments to update disclosure requirements related to contractual rights in applicable individual standards. Other than recommending an additional standard to be updated, respondents had few comments to add in this regard and the support for the change was unanimous.

REPLACING THE TERM "CONTINGENCY" WITH "CONTINGENT ASSETS AND CONTINGENT LIABILITIES"

13. FINANCIAL STATEMENT PRESENTATION, paragraph PS 1201.071, defines "contingencies" to include both contingent assets and contingent liabilities. The Exposure Draft proposed to replace the term "contingencies" with "contingent assets and contingent liabilities" in individual standards to better clarify the definition of "contingencies".
14. Overall, respondents supported the amendments and clarification of the term "contingencies" in individual standards. Several respondents identified several other areas where these same amendments could be made that were not included in the Exposure Draft. PSAB has reviewed and updated for these further amendments identified by stakeholders.
15. Although most respondents agreed with the amendments, one respondent disagreed. The respondent noted that the efforts required to add information on contingent assets may outweigh any potential benefits of doing so. They noted that as a rule, practitioners focus more on liabilities and contingent liabilities because this information is more important to users than contingent assets.
16. In response to this comment, PSAB referred to CONTINGENT ASSETS, Section PS 3320, in effect since April 1, 2017. This Section requires the disclosure of contingent assets. Therefore, the amendments would not result in any additional work to stakeholders. The amendments to replace the term "contingencies" with the more descriptive term "contingent

assets and contingent liabilities" merely clarifies that preparers and practitioners should consider both contingent assets and contingent liabilities in their reporting. The Board concluded that the changes result in greater clarity for users, preparers and practitioners, and not a change in the efforts required to disclose contingent assets.

OTHER MATTERS

17. In addition to providing their feedback on the three questions asked in the Exposure Draft, respondents provided feedback in other areas.
18. One respondent noted that PSAB should include, as part of TANGIBLE CAPITAL ASSETS, Section PS 3150, the concept of componentization of capital assets upon initial recognition, which is found in the proposed standard PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160. They noted that this would bring the accounting for tangible capital assets in line with other generally accepted accounting frameworks. Although this feedback is beyond the scope of these annual improvements, PSAB will consider it in the future.
19. Another respondent also recommended PSAB address climate change disclosure. The respondent thinks climate change may have a significant effect on the contingent liabilities, commitments and (uninsured) risks of public sector entities. The Board notes that due to the COVID-19 pandemic, its current strategic plan has been extended by one year. The Board is currently developing its upcoming strategic plan and will consider this comment.
20. Finally, one respondent noted that the Exposure Draft was one of three Exposure Drafts due within eight business days. They requested PSAB stagger future exposure-draft deadlines to provide respondents sufficient time to analyze and respond to each document. The Board acknowledged this and will take it into consideration for future exposure drafts.

EFFECTIVE DATE

21. In issuing the Exposure Draft, PSAB noted that it intends to apply the amendments retrospectively because they will not affect practice. One respondent commented that they believed the amendments will affect practice because public sector entities will have to review the previous fiscal year and determine what contractual rights and contingent assets they had with related parties, partnerships and government business enterprises. This respondent noted that for the amendments related to contingencies and contractual rights, the revisions should be prospective since the prior year information will not be crucial for financial statement users. PSAB believes that, for several years, the disclosure of contractual rights has been required through Section PS 3380 and that the disclosure of contingent assets has been required through Section PS 3320. The Board believes these types of contractual rights and contingent assets should have already been disclosed by most public sector organizations. Therefore, a requirement to apply the amendments retrospectively will not be a significant challenge to most organizations.
22. Another respondent also provided feedback on the effective dates of standards. This respondent noted that where amendments are not adding new disclosure requirements, they saw no reason why the amendments could not be effective immediately. While it agrees with the comment that some amendments are not adding new disclosure requirements, PSAB believes it may be confusing to have some amendments effective immediately and others effective at a future date.

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