Financial Statement Presentation — Basis for Conclusions

Section PS 1202

FOREWORD

CPA Canada Public Sector Accounting Handbook Revisions Release No. 57, issued in October 2023, contained a new standard: FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

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 the Board 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 followed when developing standards and guidelines.

This document has been prepared by PSAB staff. 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 (GAAP). Basis for Conclusions documents also do not include any guidance on the application of the relevant Section.

November 2023

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BACKGROUND

BC.001 In 2010, PSAB approved the Concepts Underlying Financial Performance project.

BC.002 The objective of the project was to review and amend, if necessary:

(a) the concepts underlying financial performance in the superseded public sector conceptual framework, FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100; and

(b) the reporting model in FINANCIAL STATEMENT PRESENTATION, Section PS 1201.

BC.003 The result of the project was the 10-chapter Conceptual Framework and a standard for a financial statement reporting model, FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

Issued documents for comment

BC.004 Over the course of the project, the Concepts Underlying Financial Performance Task Force ("the Task Force") issued three Consultation Papers and PSAB issued three documents for comment for the Conceptual Framework and three for the Reporting Model before finalizing each for issue in the PSA Handbook.

BC.005 In August 2011, the Task Force issued Consultation Paper 1, "Characteristics of Public Sector Entities." Its purpose was to refine and better describe the characteristics of governments and other public sector entities. Through this Consultation Paper, the Task Force gathered feedback on the key characteristics of public sector entities that have financial reporting implications and created Chapter 2 of the Conceptual Framework. These characteristics are intended to ground the development of concepts and principles in the realities of the public sector environment.

BC.006 In October 2012, the Task Force issued Consultation Paper 2, "Measuring Financial Performance in Public Sector Financial Statements." It articulated the objective of public sector financial reporting, the primary users of those reports, broad financial reporting accountabilities and more specific financial statement accountabilities. It also asked for views on three possible reporting model approaches. Through this Consultation Paper, the Task Force gathered feedback to create Consultation Paper 3 and Chapter 3 of the Conceptual Framework, and received direction on the preferred reporting model approach.

BC.007 In March 2015, the Task Force issued Consultation Paper 3, "Conceptual Framework Fundamentals and the Reporting Model." It highlighted many of the concepts and principles proposed for a revised conceptual framework and reporting model. The feedback from this Consultation Paper provided guidance to develop the reporting model proposed in the Statement of Principles and the concepts in the Statement of Concepts.

BC.008 In May 2018, PSAB issued:

(a) the Statement of Concepts, "A Revised Conceptual Framework for the Canadian Public Sector"; and

(b) the Statement of Principles, "A Revised Reporting Model for the Canadian Public Sector."

BC.009 PSAB received a significant amount of feedback on these documents. The feedback from the Statement of Concepts and Statement of Principles provided guidance to develop various exposure drafts. In January 2021, PSAB issued the following Exposure Drafts:

(a) “The Conceptual Framework for Financial Reporting in the Public Sector”;

(b) “Consequential Amendments Arising from the Proposed Conceptual Framework”;

(c) “Financial Statement Presentation, Proposed Section PS 1202”; and

(d) “Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202”.

BC.010 PSAB received a significant amount of feedback on these documents, including:

(a) 56 response letters, representing more than 110 respondents to the Conceptual Framework Exposure Draft; and

(b) 67 response letters, representing more than 180 respondents to the Financial Statement Presentation Exposure Draft.

BC.011 PSAB appreciated the extensive feedback received on the various Exposure Drafts. The comment period was during the COVID-19 pandemic, a challenging time for all. The Board acknowledges the efforts of interested and affected parties to provide input while dealing with extraordinary challenges.

BC.012 When developing the concepts and principles, PSAB also considered international developments, its proposals in other projects on its technical agenda, its strategic objectives and the recommendations arising from the work of the Joint Working Group’s subgroups. 1

PURPOSE OF STANDARD

BC.013 The purpose of a financial statement presentation standard is to prescribe the basis for presentation of financial information in financial statements, ensuring comparability both with the entity’s financial statements of previous periods and its approved budget and with the financial statements of similar entities. The standard sets out the overall requirements for the presentation of financial statements, guidance for their structure and minimum requirements for their content. However, if an entity wishes to present additional content, such as risks and uncertainties that are not currently required to be disclosed by standards in the PSA Handbook, it could do so. 2

GENERAL PRESENTATION PRINCIPLES

Fair presentation

BC.014 The Exposure Draft included a paragraph acknowledging there may be instances where legislation requires certain entities to present information in the financial statements that is inconsistent with standards and/or the Conceptual Framework. In these rare circumstances, the Exposure Draft outlined that this information was to be clearly disclosed as being inconsistent with the standards and/or the Conceptual Framework. Several respondents disagreed with including this paragraph in the final standard. They noted that the paragraph could be interpreted as legitimizing GAAP departures, or that it implied that GAAP could be something other than the standards in the PSA Handbook.

BC.015 PSAB decided to remove this paragraph for the following reasons:

(a) The Board’s mandate is to establish GAAP for the general purpose financial statements of public sector entities. While legislated accounting may occur, and preparers are required to comply with those requirements, it is not the Board’s role to design rules as to how such requirements would be included in financial statements.

(b) Audit standards provide guidance in relation to GAAP departures. The implications of GAAP departures in general purpose financial statements would be a matter for auditor-preparer resolution.

(c) Superseded Section PS 1201 and new Section PS 1202 note that complying with GAAP as set out in the PSA Handbook is considered to be equivalent to achieving fair presentation. PSAB concluded that diluting this message would be inappropriate.

Going concern

BC.016 The going concern discussion in Section PS 1202 builds on the going concern concepts in Chapter 9 of the Conceptual Framework. Also, the going concern discussion in Chapter 9 builds on the longevity discussion in Chapter 2 . These related aspects to a going concern evaluation in the public sector should be considered together. The Conceptual Framework is meant to provide the concepts and the foundation for considering the validity of a going concern presumption, with guidance being provided at the standards level (i.e., in Section PS 1202).

Restructuring transactions

BC.017 A few respondents encouraged PSAB to assist with distinguishing between restructuring transactions and transactions where entities cease to operate in their entirety (unrelated to restructuring transactions), which may trigger the presentation of financial statements that are not prepared on a going concern basis. As a result of this feedback, the Board added paragraph PS 1202.026, clarifying that there are two paths that could be taken when an entity intends or is required to cease operations.

BC.018 PSAB clarified that if an entity will cease to operate because it will enter into a restructuring transaction as defined in RESTRUCTURING TRANSACTIONS, Section PS 3430, that standard would apply. Section PS 3430 sets out characteristics that identify a restructuring transaction and provides guidance on the recognition and measurement of assets and liabilities transferred out of the entity. It also provides guidance on the required disclosure in the reporting period prior to the restructuring.

BC.019 If, because of going concern issues, an entity will cease to operate, and this is unrelated to a restructuring transaction as defined in Section PS 3430, then the going concern guidance in Section PS 1202 would apply.

BC.020 In developing Section PS 3430, a few respondents questioned whether the going concern presumption would be met by a transferor prior to the restructuring date. PSAB concluded that "[b]ased on the definition of a restructuring transaction and the underlying concepts, a recipient will take control of the assets, assume the liabilities and responsibilities for programs and operations of a transferor. Therefore, the transferor's assets will continue to be realized by the recipient, though not necessarily in the same nature and extent of usage. The transferor's financial and program obligations will continue to be satisfied by the recipient, though this may be through a different delivery mechanism. It would not be appropriate for the transferor to remeasure the individual assets and liabilities to be transferred because of an upcoming restructuring or any expected change in the usage of the assets after a restructuring." 3

Other considerations

BC.021 The indicators in, Statement of Recommended Practice (SORP) 4, Indicators of Financial Condition, may also assist in determining an entity's ability to continue as a going concern. 4

Materiality

BC.022 The materiality general presentation principle in the Exposure Draft outlined that an entity would not need to provide a specific presentation required by a standard or guideline if the information resulting from that presentation is not material. Some respondents raised concern with this paragraph. They noted that the term "not material" should be defined, and that it should either be included in the definitions, or reference should be made to the Conceptual Framework where this is explained. There were also concerns that this paragraph may be overly vague.

BC.023 To resolve the concerns raised, PSAB amended the materiality general presentation principle text to include a cross-reference to where the guidance on materiality can be found.

Aggregation

BC.024 The aggregation general presentation principle in the Exposure Draft outlined that immaterial items that share similar characteristics should be aggregated and described in a manner that faithfully represents the characteristics of the aggregated items. Some respondents raised concerns noting that the paragraph should clarify that if immaterial items are aggregated, and the aggregate remains immaterial, no disclosure should be required. They also felt that the paragraph was inconsistent with the materiality general presentation principle as it could be interpreted as requiring disclosure of aggregated immaterial items, increasing the number of note disclosures on immaterial items.

BC.025 An overarching principle for the whole PSA Handbook is that the standards are not to apply to immaterial items. This can be extrapolated to aggregations of immaterial items that are also immaterial. PSAB discusses materiality/immateriality in three places in the PSA Handbook: paragraph 26 of the Introduction, paragraph 7.34 of the Conceptual Framework and in Section PS 1202 (it was also addressed in superseded paragraph PS 1201.015). PSAB agreed that there is merit in removing any perceived conflict with the materiality paragraph.

BC.026 PSAB updated the discussion on aggregation with overarching principles that users can look to. These principles are consistent with the aggregation concepts in the Conceptual Framework.

Line items and subtotals

BC.027 The line items and subtotals general presentation principles note that an entity should present additional line items, headings and subtotals when such presentations are relevant to an understanding of the entity's financial position and change in financial position. Some respondents raised concerns with these principles and noted that additional guidance should be provided on using line items and subtotals, as they felt that the existing guidance was vague and open to subjective interpretation. However, PSAB noted that the language used is consistent with the language used in both International Public Sector Accounting Standards (IPSAS) and IFRS® Accounting Standards. The Board concluded that the principles provide enough guidance without being overly restrictive.

REPORTING FINANCIAL POSITION

Statement of financial position

BC.028 Three key amendments were made to the statement of financial position:

(a) The calculation of the net financial liabilities (formerly known as "net debt") or net financial assets indicator was relocated to its own statement.

(b) Two categories of liabilities were introduced: financial and non-financial liabilities.

(c) A third component of net assets or net liabilities was added, "accumulated other".

Relocating the calculation of the net financial liabilities (formerly known as "net debt") or net financial assets indicator to its own statement

Background

BC.029 In the Statement of Principles and the Exposure Draft, PSAB proposed to relocate the net financial liabilities (formerly known as "net debt") or net financial assets indicator from the statement of financial position to its own statement for the following reasons:

(a) It allows PSAB to refine what is included in the net financial liabilities or net financial assets calculation to ensure it continues to measure what it was intended to measure.

(b) It allows the indicator to be prominently displayed in a statement, given its importance, rather than being presented as a subtotal in the statement of financial position.

(c) By presenting all assets together and all liabilities together, it allows the statement of financial position to be understandable to users.

(d) It gives the Board the opportunity to determine whether certain public sector entities should report the net financial liabilities or net financial assets indicator.

BC.030 Despite the relocation, the financial statements would retain key public sector distinctions:

(a) The financial and non-financial classification of assets is retained on the statement of financial position. 5

(b) The net financial liabilities indicator (formerly known as "net debt") or net financial assets indicator is retained. It is presented in its own separate statement.

(c) The net assets or net liabilities indicator is retained as the indicator of net financial position.

Feedback received

BC.031 The majority of respondents agreed with the proposal to relocate the net financial liabilities or net financial assets indicator to its own statement. Those who disagreed provided mixed views:

(a) A few respondents noted that the indicator is important and highlighting it on the statement of financial position gives it prominence. Removing it from the statement of financial position reduces its prominence. Having the indicator on the statement of financial position also allows users to see it in relation to non-financial assets, which provides valuable accountability information.

(b) In contrast, a few respondents noted that the indicator can be presented in the notes rather than on a separate statement.

BC.032 Some respondents encouraged PSAB to consider alternative presentation options for the indicator.

Retaining the importance of the net financial liabilities indicator

BC.033 PSAB believes that net financial liabilities (formerly known as "net debt") is an important indicator:

(a) It provides information about future resources required to settle past commitments and obligations. The extent of an entity's net financial liabilities and its financial ability to service liabilities are important factors in assessing its financial sustainability.

(b) It is a key affordability measure for public sector entities, regardless of their ability to tax or incur debt. The net financial liabilities position is created by the entity's past activities, specifically any decisions to incur liabilities, not just issued debt. For example, some entities have large unfunded pension liabilities or material capital leases on tangible capital assets that are integral to operations. Entities need to know what is required in the future to pay for past commitments and obligations, and so does the public and other interested parties.

(c) Reporting net financial liabilities can help government not-for-profit organizations (GNFPOs) explain to donors that their funding needs exceed their financial resources.

BC.034 The relocation of net financial liabilities or net financial assets to its own statement is intended to display the indicator more prominently than if it were being reported as a subtotal within the statement of financial position.

BC.035 The relocation of the net financial liabilities or net financial assets indicator to its own statement is not meant to lessen the importance of the indicator. In fact, paragraph 10.11 of the Conceptual Framework states, "No one individual statement in the financial statement package is more important than any other individual statement." That is, all statements in the financial statement package are important, each statement has its own purpose, and all statements need to be looked at together when evaluating an entity's finances. Consequently, all indicators on the financial statements are important and need to be looked at together when evaluating an entity.

BC.036 The relocation of the indicator to its own statement created the opportunity to make it more understandable and meaningful to users. On its own statement, an entity has the option to provide additional information in relation to what caused the indicator to increase or decrease in the accounting period. In effect, the statement of net financial assets or net financial liabilities better allows an entity to explain the indicator in the context of its own finances, and for a government in the context of the economics of its particular jurisdiction.

Providing transparent information in relation to non-financial assets

BC.037 Respondents indicated that comparing an entity's net financial liabilities (formerly known as "net debt") to the tangible capital asset balance on the statement of financial position allows users to determine whether tangible capital assets have been financed by debt. This comparison provides users with information on the entity's sustainability and its future financial resource requirements. The indicator and tangible capital asset balance needed to make this comparison are retained in the financial statements. Further, the statement of cash flow can also provide information useful in determining whether tangible capital asset acquisitions may have been financed by debt.

Alternative presentation options

BC.038 The relocation of the net financial liabilities (formerly known as "net debt") or net financial assets indicator led PSAB to revise the structure of the statement of financial position, which was created to facilitate the calculation of the indicator on the face of the statement. Overall, there was general support from respondents for the revised structure of the statement of financial position.

BC.039 Some respondents suggested that the provincial, federal and territorial governments retain the structure of the statement of financial position in superseded Section PS 1201. This indirectly implies that other public sector entities would have a different statement of financial position presentation. Through the Concepts Underlying Financial Performance project, PSAB created a reporting model that will be used as a benchmark. The question of customized financial statement presentations for different types of public sector entities is outside the project's scope.

BC.040 Other respondents suggested that PSAB allow entities that only want to show the indicator on the statement of financial position to do so. This would create a situation where similar entities would have different statements of financial position. This reduces the ability to compare similar entities and further diminishes user understandability.

BC.041 PSAB decided to proceed with a separate statement of net financial liabilities or net financial assets for the following reasons:

(a) Having net financial liabilities or net financial assets in its own statement isolates the indicator to promote its importance.

(b) A separate statement allows an entity, if it wishes, to present the reasons for the changes in the indicator in the accounting period, which increases the understandability of the indicator. For example, some affected and interested parties have noted that unrealized remeasurements create volatility in the indicator. In this statement, entities can highlight and explain the extent to which volatility in the indicator arises from unrealized remeasurements, if considered useful and understandable to users. 6

(c) Having the net financial liabilities or net financial assets calculation in its own statement makes the statement of financial position understandable and more familiar to users who also read private sector financial statements. It does not complicate the statement of financial position with a structure oriented to calculate net financial liabilities or net financial assets, among the other indicators it also presents.

BC.042 However, PSAB also decided that if an entity also wishes to present the net financial assets or net financial liabilities indicator on the statement of financial position (i.e., presenting the indicator in two places), it could do so at the bottom of the statement of financial position with a note referencing the calculation and the statement of net financial assets or net financial liabilities. This maintains comparability among public sector entities and is illustrated in Appendix M to Section PS 1202.

Introducing financial and non-financial liabilities

BC.043 The need to ensure the net financial liabilities (formerly known as "net debt") or net financial asset indicator retained its original meaning led to the requirement to distinguish between financial and non-financial liabilities on the statement of financial position. Users told PSAB that certain liabilities were being included in the calculation of the indicator that distorted the meaning of the indicator. To remove these liabilities, the Board introduced the two classifications of liabilities. This allowed non-financial liabilities to be excluded from the calculation, returning the indicator to its original meaning.

BC.044 More information on this decision is in the section entitled "Statement of net financial assets or net financial liabilities," starting at paragraph BC.107.

Adding a third component of net assets or net liabilities

BC.045 One of the project's objectives was to develop a reporting model for the Canadian public sector that would best demonstrate accountability and transparency, while allowing PSAB to deal with standards-level issues, such as those related to financial instruments and new issues that may arise. Based on the feedback to the three Consultation Papers, the reporting model also needed to be an asset and liability–based model that did not result in a single statement of comprehensive financial results.

BC.046 A review of the reporting models of other standard setters, including the International Public Sector Accounting Standards Board (IPSASB), the International Accounting Standards Board and the U.S. Governmental Accounting Standards Board, indicated that PSAB's reporting model needed a location on the financial statements where certain changes in financial position of a period are presented outside of the surplus or deficit of that period.

BC.047 PSAB analyzed the various options for presenting those changes in financial position recognized outside of surplus or deficit in the period they arise. 7 The Board decided to present them directly in net assets or net liabilities with the details on a separate statement of changes in net assets or net liabilities for the following reasons:

(a) The model allows financial position to be understandable because it comprises only assets and liabilities. It facilitates a clear reporting of net assets or net liabilities as the net financial position of the entity.

(b) The model is the most relevant to users because it does not include:

(i) deferred inflows and outflows as elements, which many respondents rejected based on the feedback received on Consultation Paper 2; or

(ii) a two-bottom-line or "other comprehensive income" approach on the statement of operations, which many respondents rejected based on the feedback on Consultation Paper 3.

(c) The model is the most practical because:

(i) it builds on the reporting model in superseded Section PS 1201 wherein certain revenues and expenses (e.g., unrealized remeasurements arising from financial instruments carried at fair value) are recognized directly in a component of net assets or net liabilities;

(ii) there would be no significant amendments to the superseded Section PS 1201 reporting model for those government organizations that implemented the financial instruments and foreign currency translation standards for fiscal years beginning on or after April 1, 2012, and those governments that implemented them for fiscal years beginning on or after April 1, 2022; and

(iii) it aligns with important aspects of the reporting model that certain GNFPOs apply (i.e., those applying the PS 4200 series), such as having multiple components of net assets. As a result, the model can act as a bridge for this community to adopt the rest of the PSA Handbook more fully. It could also lead to a more understandable transition for this community and its affected and interested parties as PSAB reviews the PS 4200 series of standards.

(d) The model is the one that best aligns with the IPSASB's reporting model. Both recognize certain changes in financial position directly in net assets or net liabilities, and the IPSASB has not yet required recognition of any transactions in its other resources and other obligations categories on the statement of financial position. This is important given that in 2020 PSAB decided to adapt IPSAS principles when developing future standards.

BC.048 PSAB also concluded that the reporting model would allow unrealized remeasurements and other changes in financial position it identifies to be recognized outside of surplus or deficit in the period they arise. This best serves the public interest because:

(a) It makes the reporting model sustainable and sets the stage for establishing standards for years to come. It is not restricted to just unrealized remeasurements being recognized outside of surplus or deficit in the period they arise. Thus, the Board has the ability to deal with emerging issues.

(b) It makes the reporting model relevant for users:

(i) It identifies and highlights specifically the surplus or deficit of the period and requires all revenue and expense of the period to be included in its calculation unless required specifically by PSAB in another standard to be recognized in accumulated remeasurement gains and losses and/or accumulated other.

(ii) It retains important indicators of financial position, such as net assets or net liabilities and net financial liabilities (formerly known as "net debt") or net financial assets, that provide familiar and important accountability information to users.

(iii) It responds to the feedback received at the beginning of the project, relating to standards-level issues. Although the project is not intended to amend standards, the reporting model gives PSAB the ability to deal with standards-level issues.

(iv) It responds to the needs of the GNFP community, as the third component gives PSAB more options to respond to endowment-related accounting issues.

(v) It allows PSAB to deal with issues that may arise in the future, such as heritage resources, intangibles and natural capital that have not been purchased.

BC.049 The reporting model allows PSAB to respond to users' needs as they arise and transparently reflect the economic substance of unique transactions or other events, leading to improved accountability information presented in financial statements.

BC.050 This reporting model builds on the reporting model in superseded Section PS 1201, which had two components of net assets or net liabilities:

(a) accumulated operating surplus or deficit; and

(b) accumulated remeasurement gains and losses.

BC.051 The reporting model in Section PS 1202 has a third component called "accumulated other". Only PSAB, through its due process, would designate transactions and other events to be recognized in this component, or the accumulated remeasurement gains and losses component.

BC.052 PSAB's decision to allow for the possibility that more than just remeasurements be recognized outside of surplus or deficit when they arise led to a discussion as to how restrictive and prescriptive the guidance for these other exclusions would be. The Board evaluated various criteria that could be used to ensure consistent use of the component. However, it was determined that the criteria were very subjective. Instead of criteria, PSAB concluded that in determining that an event (or change in financial position) should be recognized outside of surplus or deficit when it arises, the Board would need to demonstrate (and justify in the Basis for Conclusions for a new or amended standard) why such recognition provides better information for accountability purposes. This criterion is noted in paragraph PS 1202.147.

BC.053 The third component is referred to as "accumulated other" because it is unknown at this time what PSAB will include in it. As standards are developed and if items are identified for inclusion in this component, the Board can revisit the name of the component. If the Board concludes that transactions recognized in this third component share certain characteristics, it can subdivide the accumulated-other component to establish an additional one to better describe that aspect of financial position to users. A new component might be appropriate, for example, if the Board were to require natural capital or heritage resources that have not been purchased to be recognized in financial statements. For these items already held by the entity, revenue or liability recognition of the credit side of the initial recognition of these items may not be appropriate; the third component allows for consideration of a third option. Introducing new components would be to differentiate further items with shared characteristics, making the financial statements more understandable. Renaming the component or introducing new components would be done through a consequential amendment to the financial statement presentation standard.

BC.054 In further contemplation of additional components of net assets or net liabilities, the reporting model would always identify a residual accumulated other. Accumulated other is a necessary feature of the model to allow possible reporting of further aspects of net assets or net liabilities. PSAB sees this feature as important, giving future Boards the means to improve the accountability financial statements provide.

BC.055 As PSAB reflects transactions and other events in this component or the accumulated remeasurement gains and losses component of net assets or net liabilities, Section PS 1202 would be updated through consequential amendments.

Components of net assets or net liabilities are different from funds or reserves

BC.056 FUNDS AND RESERVES, paragraphs PSG-4.2-3 and PSG-4.5 state, "Funds and reserves…are used to reflect a government's intentions to undertake certain future activities or to demonstrate compliance with legislation. …Some funds and reserves are supported by assets. … Governments also establish funds and reserves that are not supported by assets. These are designations of accumulated and/or annual surplus / deficit to reflect a policy purpose, to assist with fiscal management or to demonstrate compliance with legislation."

BC.057 Components of net assets or net liabilities, specifically accumulated remeasurement gains and losses and accumulated other are different from funds and reserves:

(a) They do not reflect an entity's intention to undertake future actions. For example, the accumulated remeasurement gains and losses component currently presents the consequences of holding certain fair value financial instruments with unrealized remeasurement gains and losses as at the financial statement date. Similarly, the accumulated-other component would not reflect an intention to undertake future actions.

(b) They do not demonstrate compliance with legislation. The creation of accumulated remeasurement gains and losses or accumulated other is not the result of legislation but the result of improving accountability and reflecting the effects of complex transactions and other events in financial statements.

(c) They are not designations of accumulated surplus or deficit. Accumulated remeasurement gains and losses and accumulated other are components of net assets or net liabilities separate from and in addition to accumulated surplus or deficit. It is possible for revenues and expenses initially recognized in accumulated remeasurement gains and losses and accumulated other to be subsequently reclassified to accumulated surplus or deficit. But accumulated remeasurement gains and losses and accumulated other are not components of accumulated surplus or deficit in the same way that funds and reserves are.

(d) Movement between components of net assets or net liabilities is allowed only as mandated through public sector accounting standards.

BC.058 Through consequential amendments to PSG-4, PSAB has clarified that PSG-4 relates to providing a breakdown of the accumulated surplus or deficit component.

Feedback received

BC.059 Most respondents agreed with the proposal to add a new component of net assets or net liabilities, called "accumulated other". Concerns expressed by some respondents included the following:

(a) the component can be misused;

(b) the component is contrary to the Conceptual Framework;

(c) some items in the component may not be reclassified to surplus or deficit;

(d) all revenues and expenses should be reflected in surplus or deficit;

(e) the component will create confusion; and

(f) the component diminishes transparency.

BC.060 Respondents also suggested PSAB consider:

(a) adding further components of net assets or net liabilities;

(b) including "other resources" and "other obligations"; and

(c) incorporating a budget requirement for those revenues and expenses recognized in accumulated other.

Reducing the risk that the accumulated-other component can be misused

BC.061 Some respondents expressed concern that the accumulated-other component can be misused.

BC.062 PSAB considered this risk when developing Section PS 1202. For this reason, both Section PS 1202 (in paragraphs PS 1202.147, PS 1202.159 and PS 1202.161) and the Conceptual Framework (in paragraph 6.25) note that only PSAB designates transactions and other events for recognition in this or any other component.

BC.063 It is also important to note that when PSAB decides to use this component, it will follow the due process and seek feedback on its proposed use. Further, the Board will justify using the component and why such recognition provides better information for accountability purposes in the Basis for Conclusions accompanying any standard requiring recognition of a transaction or other event in accumulated other.

The component is consistent with the Conceptual Framework

BC.064 Some respondents felt that the accumulated-other component is inconsistent with the Conceptual Framework.

BC.065 Paragraph 6.25 of the Conceptual Framework explains the concept supporting the exclusion of some changes in an entity's financial position in a period from the surplus or deficit of that period. The accumulated-other component is consistent with the concepts in the Conceptual Framework.

Reclassifying items previously recognized in accumulated remeasurement gains or losses or accumulated other to surplus or deficit

BC.066 Some respondents were concerned that some items recognized directly in accumulated other may never be reflected in surplus or deficit. Paragraph PS 1202.147 notes the following:

> If PSAB decides that a revenue or expense is initially recognized outside of a period's surplus or deficit, it would then determine the following:
>
> (a) the component of net assets or net liabilities the revenue or expense would be initially recognized in (i.e., accumulated remeasurement gains and losses or, if applicable, accumulated other); and
>
> (b) when, or if, it would be subsequently reclassified to a future period's surplus or deficit.
>
> Such decisions would be based on providing better accountability information to the user and would be explained and documented in the applicable standard's Basis for Conclusions.

BC.067 In other words, reclassifying items previously recognized in accumulated remeasurement gains or losses or, if applicable, accumulated other, to the surplus or deficit of a future period(s), would generally occur. However, if there is no clear and objective basis for identifying:

(a) when to reclassify such items to surplus or deficit; or

(b) the amount of such items,

then these items would not be reclassified to the surplus or deficit of any period(s).

BC.068 It is decided at the standards level whether an item previously recognized in accumulated remeasurement gains or losses or accumulated other is subsequently reclassified to the surplus or deficit of a future period or periods and how the item is subsequently reclassified to surplus or deficit. Such decisions depend on the item and what initial recognition and subsequent reclassification provides better accountability information.

BC.069 Some items initially recognized directly in a component of net assets or net liabilities may never be reclassified to the surplus or deficit of a future period or periods. These could include:

(a) items required by ACCOUNTING CHANGES, Section PS 2120, to be recognized directly in net assets or net liabilities;

(b) first-time recognition of assets excluded from recognition under public sector accounting standards, if each recognition prohibition is reversed by PSAB, and should the Board require retroactive recognition of items previously prohibited from recognition; and

(c) endowments that are externally restricted in perpetuity if the Board decides to recognize the credit for such items directly in accumulated other when it develops a standard on endowments.

BC.070 In its Basis for Conclusions for the relevant standard, PSAB would justify why it has determined for a particular item recognized in a component of net assets or net liabilities that there is no clear and objective basis for identifying:

(a) when to reclassify such item to surplus or deficit; and/or

(b) the amount of such item.

The need to recognize certain changes in financial position of a period outside of that period's surplus or deficit

BC.071 Some respondents noted that all revenues and expenses of a period should be recognized in the period's surplus or deficit. A pure asset and liability model requires all changes in net assets or net liabilities to flow through the surplus or deficit.

BC.072 The model in Section PS 1202 is an asset and liability–based reporting model. However, it will allow certain changes in financial position to be recognized outside of the surplus or deficit of the period in which they arise, as directed by PSAB. This model builds on the model in superseded Section PS 1201 that allows certain revenues and expenses related to unrealized remeasurements to be initially recognized outside of surplus or deficit in a component of net assets or net liabilities.

BC.073 Other standard setters' reporting models also allow certain revenues or expenses not to be recognized in surplus or deficit in the period(s) they arise.

BC.074 A mechanism to recognize certain changes in financial position of a period outside of that period's surplus or deficit was needed:

(a) to provide PSAB with an alternative for presenting the economic substance of transactions and other events when developing future standards; and

(b) to reflect the economic substance of currently unanticipated types of transactions or existing transactions not yet addressed in the PSA Handbook.

BC.075 Most changes in assets and liabilities (with a net effect on net assets or net liabilities) are recognized in surplus or deficit in the period they arise.

BC.076 Accounting theory for a stewardship-focused model substantiates distinguishing unrealized remeasurements from financial performance arising from replicable operating activities. This reflects an accountability emphasis on realized performance and recognizes the greater uncertainty associated with unrealized performance.

BC.077 It may also be appropriate in a stewardship-focused model to exclude from surplus or deficit the initial recognition of items that will be held solely for stewardship purposes (e.g., heritage items and natural capital that have not been purchased or perhaps endowments externally restricted in perpetuity).

BC.078 PSAB may also determine that other events are best recognized outside of surplus or deficit in the period they arise to reflect their economic substance for accountability purposes.

The accumulated-other component helps PSAB ensure accountability for and understandability of the economic substance of items, transactions and other events

BC.079 Some respondents were concerned that the accumulated-other component will create confusion as it is abstract and not well understood. Detail about the accumulated-other component and how it may be renamed in the future as items are reflected in it was provided in paragraphs BC.053-.054.

BC.080 Further, creating an understandable reporting model was a key factor in determining the most appropriate location for certain changes in financial position to be recognized outside of surplus or deficit when they arise. PSAB thinks the reporting model in Section PS 1202 is understandable because:

(a) financial position only comprises assets and liabilities and users understand assets and liabilities;

(b) it facilitates a clear reporting of net assets or net liabilities; when explained and contrasted with their personal finances, the public can understand this indicator;

(c) it does not include deferred inflows and outflows as elements, which respondents rejected because users do not understand them; and

(d) it does not have a two-bottom-line or "other comprehensive income" approach on the statement of operations, which respondents rejected because such an approach may confuse users about what the "real" surplus or deficit indicator would be.

Providing transparent information

BC.081 Some respondents indicated that the accumulated-other component would reduce transparency.

BC.082 PSAB is of the strong opinion that the reporting model is transparent. The statement of changes in net assets or net liabilities captures all the changes in financial position arising in the period. The statement's purpose is to be transparent with respect to those changes in financial position recognized in the surplus or deficit of the period and those recognized directly in a component of net assets or net liabilities.

BC.083 The statement of operations provides details of the revenues and expenses recognized in surplus or deficit for the period. In addition to summary information set out in the statement of changes in net assets or net liabilities, a supplementary statement or schedule of remeasurement gains and losses may be used to provide expanded detail about remeasurements recognized in the accumulated remeasurement gains or losses component of net assets or net liabilities.

BC.084 PSAB also concluded it is being transparent in discussing the possibility of recognizing certain changes in financial position in an "other" component of net assets or net liabilities in both Section PS 1202 and the Conceptual Framework. A few respondents indicated that the Board should not discuss such a component until it is used. The Board concluded it should be transparent about the possibility of using such a component in the future. Creating this component responds to feedback received and may help the Board develop the accounting for emerging issues.

BC.085 Section PS 1202 and the Conceptual Framework are also transparent by explaining concepts and principles as much as possible, providing guidance where appropriate.

Additional components of net assets or net liabilities

BC.086 Some respondents encouraged PSAB to develop other components of net assets or net liabilities such as "accumulated externally restricted" to use for endowments, and "accumulated invested in capital assets".

BC.087 In developing the reporting model, PSAB considered what features it might need to ensure that a future standard on endowments reflects the economic substance of endowment funds. The Board felt that "accumulated other" could be one recognition option available to it under the model in Section PS 1202 that is not available in the model in superseded Section PS 1201. It would choose such an option if it concluded such presentation better serves the accountability objective of financial reporting when it develops an endowment standard.

BC.088 PSAB concluded that a different breakdown of the net assets or net liabilities components established by the Board could be done in the notes. So, for example, entities wishing to provide a breakdown of accumulated surplus or deficit into categories (e.g., restricted funds, reserves or invested in capital assets) to show a different aspect of accountability of the entity can do so in the notes. This is consistent with the current practice indicated in PSG-4. A reference can be made on the face of the statement of financial position or statement of changes in net assets to the detailed breakdown of accumulated surplus or deficit, and/or where the components of net assets or net liabilities are explained.

BC.089 The components PSAB created are those that are necessary for the mechanics and functioning of the reporting model to allow the various statements in the model to link to one another.

“Other resources” and “other obligations”

BC.090 Some respondents encouraged PSAB to consider introducing “other resources” and “other obligations” to the Canadian reporting model rather than the “accumulated-other” component of net assets or net liabilities.

BC.091 “Other resources” and “other obligations” are categories of financial position introduced in IPSASB’s conceptual framework that do not satisfy the definition of an element.

BC.092 PSAB considered using “other resources” and “other obligations”, but chose not to adopt these categories because:

(a) items that do not fall within the elements established within the Conceptual Framework would not be well understood; and

(b) financial position should focus on assets and liabilities and the difference between them.

BC.093 PSAB concluded that to improve accountability, entities should represent and explain their financial position and financial performance using building blocks that are familiar to the public, such as assets, liabilities and changes in them. The understandability imperative that flows from the accountability objective supports an approach that reports financial performance and financial position in terms that the public already understands. Accountability is not achieved when those to whom an entity is accountable cannot understand the financial statement information provided to them.

Budget requirements for the accumulated-other component

BC.094 A few respondents asked PSAB to incorporate budget requirements in relation to those revenues and expenses recognized in the accumulated-other component. The Board considered including a budget column on the statement of changes in net assets or net liabilities, specifically in relation to the accumulated-other component. The Board decided against it because it is unknown at this time what will be recognized in the accumulated-other category. As a result, the current Board did not want to encumber a future Board without having all the necessary information to decide. However, this decision does not preclude a future Board from incorporating budget requirements. In the future, when it develops a standard that recognizes a revenue or expense in the accumulated-other component, the Board would be able to determine whether a budget amount should be presented.

Other aspects of the statement of financial position

Classifying assets and liabilities as current and non-current

BC.095 In developing Section PS 1202, PSAB considered whether assets and liabilities should be presented as current and non-current. The IPSASB requires this separation. PSAB believes that given the characteristics of Canadian public sector entities, it is more important to present the nature of the assets as financial and non-financial on the statement of financial position, rather than their liquidity. If an entity wants to present assets and liabilities as current and non-current, it can do so in the notes to the financial statements. The Board concluded that attempting to show this breakdown in addition to the financial and non-financial presentation on the statement of financial position would make the statement visually complex. Further, the Board thinks the financial/non-financial distinction better articulates with and facilitates the calculation of the net financial assets or net financial liabilities indicator on the statement of net financial assets or net financial liabilities.

Recognition exclusions

BC.096 The superseded conceptual framework excluded some items from recognition in an entity’s financial statements. These included:

(a) natural resources (including trees or forests) that have not been purchased;

(b) Crown lands that have not been purchased;

(c) works of art and historical treasures; and

(d) certain intangibles (those that have been developed or not purchased). 8

BC.097 PSAB decided to relocate these recognition exclusions to the financial statement presentation standard until the Board considers each of them and consults interested and affected parties. Removing the recognition exclusions from the PSA Handbook would have significant implications. Specifically, there would be issues related to non-purchased items and certain intangibles such as those that are internally developed. The recognition exclusions will not be removed from the PSA Handbook until they are subject to due process.

BC.098 PSAB concluded this approach would give it the opportunity to consider the priority of the topics set out in these exclusions for its future technical agenda. If standards related to the items excluded from recognition are developed, consequential amendments could be made to Section PS 1202 to remove the relevant exclusion.

BC.099 There was overwhelming support to relocate the recognition exclusions from the Conceptual Framework.

BC.100 A group of respondents asked PSAB to consider removing the recognition exclusion of non-purchased natural resources from the PSA Handbook. This would allow entities that are ready to recognize natural resources in their financial statements to do so regardless of whether they had been purchased. The Board notes that, without the exclusion, entities would be required to evaluate all non-purchased natural assets against the asset definition and general recognition criteria. And if they meet the definition and are measurable, public sector accounting standards would require their recognition.

BC.101 PSAB also considered including an option for entities to recognize natural resources that are not purchased. The Board concluded, for comparability, completeness, consistency and strengthening accountability, the due process needs to be followed and sufficient research is needed before such a decision could be made.

BC.102 Although the recognition exclusions are relocated to Section PS 1202, neither the Conceptual Framework nor Section PS 1202 restrict an entity from providing further disclosures related to the resources excluded. The Conceptual Framework encourages the use of supplemental information, allowing financial statement preparers to provide information in the notes or schedules, on the resources excluded from recognition. Paragraph 10.24 of the Conceptual Framework states, "Entities may supplement the core financial statement requirements with additional information in the notes and schedules" if certain criteria are met. Consideration would also need to be given to the auditability of the disclosures.

Financial asset and financial liability definitions

BC.103 A few respondents disagreed with the financial asset and financial liability definitions because they differ from those of other standard setters, and as a result would create confusion among users. The financial asset and financial liability definitions used in IPSAS and IFRS Accounting Standards are linked to financial instruments.

BC.104 This divergence from using terminology in the same way as other standard setters has a precedent in the PSA Handbook. The PSA Handbook defined a "financial asset" long before (i.e., 1986) other standard setters issued financial instrument standards. PSAB's definition of a financial asset was designed for use in calculating the net debt indicator and the initial government reporting model in Canada was entirely based on this indicator. So, it necessarily included items that are not included in the "financial assets" defined by other standard setters. For example, investments in government business enterprises and inventories for resale are financial assets in the Canadian public sector model; this reflects the expectation that these assets will provide resources to spend on future operations or discharge liabilities.

BC.105 PSAB also adopted and defined the term "financial liability" more broadly than other standard setters to facilitate a refined calculation of the net financial assets or net financial liabilities (formerly known as "net debt") indicator, which remains an important public sector financial position indicator in Canada. In fact, it was designed to ensure that the indicator returned to its original meaning.

BC.106 Given the positive input received from respondents, in relation to removing items from the indicator that distorted its meaning, PSAB decided to proceed with using and defining the terms "financial assets" and "financial liabilities" as proposed in the Exposure Draft of Section PS 1202. However, PSAB made consequential amendments to FINANCIAL INSTRUMENTS, Section PS 3450, to refer to "financial instrument assets" and "financial instrument liabilities". The definitions for these new terms would be the same in substance to the financial asset and financial liability definitions used for financial instruments in IPSAS and IFRS Accounting Standards. More information on the decision to revise the calculation of the indicator is in the section entitled "Revising the net financial assets or net financial liabilities calculation," starting at paragraph BC.108.

Statement of net financial assets or net financial liabilities

BC.107 The statement of net financial assets or net financial liabilities was added to the financial statement package as compared to the package in superseded Section PS 1201. It presents the revised net financial assets or net financial liabilities (formerly known as "net debt") calculation.

Revising the net financial assets or net financial liabilities (formerly known as "net debt") calculation

BC.108 PSAB decided the meaning of the net financial assets or net financial liabilities (formerly known as "net debt") indicator as currently stated is appropriate. The Board is not changing the meaning of the indicator. However, the Board acknowledged that the calculation of the indicator needed to be revisited to ensure it measured what it was meant to measure.

(a) A net financial assets position indicates that there are financial assets available to provide services in the future and/or settle existing and future financial liabilities.

(b) A net financial liabilities position indicates that additional financial assets are required in the future to settle financial liabilities incurred. It represents a "lien" on existing and future financial assets and affects an entity's ability to finance its activities, provide services and settle its financial liabilities in the future.

BC.109 In reviewing the net financial assets or net financial liabilities calculation while developing Section PS 1202, PSAB recognized that the calculation needed to be revisited as it was no longer measuring what it was originally intended to measure. The Board received feedback that certain items included in the calculation as defined in superseded Section PS 1201, should be excluded. That calculation was initially used when all recognized liabilities would be settled with financial assets; there were no complex liabilities, such as those that now exist related to public private partnership arrangements, some capital transfers and non-financial performance obligations, that needed to be evaluated for inclusion in or exclusion from the calculation.

Financial asset side of the calculation

BC.110 When developing the revised calculation, PSAB specifically considered endowments for which the principal is externally restricted in perpetuity. 9

BC.111 In 2016, PSAB's Public Sector Accounting Discussion Group discussed whether endowments are financial assets or non-financial assets. No consensus on this question was reached. Some Group members focused on the nature of endowment receipts as generally comprising financial assets, often in the form of investments. Other Group members expressed concern with endowment receipts being recognized as financial assets as they would be seen as reducing net financial liabilities (formerly known as "net debt"), but the principal cannot be used to discharge liabilities or spend on future operations. To remove the effect of these perpetually externally restricted assets from the calculation of the indicator, these Group members thought that reporting endowment receipts as non-financial assets was appropriate even if they did not strictly meet the non-financial asset definition in place at the time.

BC.112 In determining how to proceed with this issue, PSAB considered two main options:

- (a) Option 1: The calculation would be "financial assets, other than those externally restricted and not available to settle liabilities, less" the liabilities side of the calculation which is discussed in the section "Liability side of the calculation", paragraph BC.121.
  - (i) This option was proposed in the Statement of Principles and respondents indicated that exclusions to the calculation create confusion as they are complex.
  - (ii) Additional guidance was needed on the exclusions. However, for endowments, it was difficult to provide useful guidance in a general financial statement presentation standard, given the complexities around endowment transactions.
- (b) Option 2: Revise the definition of non-financial assets in such a manner that it uses the financial assets definition as the determinant of whether an asset is a financial or non-financial asset. Any asset not meeting the financial asset definition would automatically be classified as a non-financial asset. The first part of the calculation would be "financial assets." This would:
  - (i) deal indirectly with the endowments issue (i.e., endowments externally restricted in perpetuity could fall in the non-financial asset classification) but also leave room for the possibility of future items being excluded from financial assets;
  - (ii) reduce the complexity in the first part of the calculation that is evident in Option 1;
  - (iii) clarify that assets fall into one of only two categories: financial or non-financial assets;
  - (iv) ensure the non-financial asset definition is sufficiently broad to include economic resources not yet dealt with in standards; and
  - (v) yield an appropriate number for the indicator no matter what the credit entry of the endowment receipt is. 10 This assumed that amendments would be made to the liability side of the calculation. This is discussed further in the following section, starting with paragraph BC.121.

BC.113 PSAB decided to proceed with Option 2 (i.e., revise the definition of non-financial assets by using the financial assets definition as the determinant of whether an asset is a financial or non-financial asset; the first part of the calculation would therefore be "financial assets"). This option leads to a meaningful number for the indicator and reduces some of the complexity associated with Option 1. This was important as the objective of revising the calculation was to restore the indicator to its original meaning and make the financial statements more understandable.

BC.114 One implication of this decision arises in relation to endowments externally restricted in perpetuity that are invested. Since endowments are generally invested, how would Section PS 3450 apply if they are classified as non-financial assets? To answer this question, PSAB made consequential amendments to Section PS 3450 to refer to those assets and liabilities that are financial instruments as financial instrument assets and financial instrument liabilities. A financial instrument asset could then be presented as a financial asset or a non-financial asset, depending on whether the asset can be accessed and used (i.e., whether the financial asset definition is met).

BC.115 When determining if assets could be accessed and used, consideration is given as to whether external restrictions have been placed on the assets and the type of external restrictions. Some external restrictions result in a financial asset classification. Other external restrictions, such as restrictions preventing access to the asset, will result in a non-financial asset classification. For example, externally restricted endowments that must be held in perpetuity may be non-financial assets, as the entity does not have access to the assets (i.e., the entity cannot use the externally restricted endowment to discharge existing financial liabilities or spend on future operations).

BC.116 In contrast, PSAB concluded that financial instrument liabilities would always be classified as financial liabilities. The nature of financial instrument liabilities is that they are always expected to be settled using financial assets, thereby meeting the financial liability definition.

BC.117 A decision tree was included in Appendix C of Section PS 1202 to help determine how to classify financial instrument assets. The decision tree asks the key question, "Can the financial instrument asset be accessed to discharge existing financial liabilities or spend on future operations?" The answer will determine the classification and the presentation of the financial instrument asset as a financial or non-financial asset.

BC.118 Making consequential amendments to Section PS 3450 to refer to those assets and liabilities that are financial instruments as financial instrument assets and financial instrument liabilities also addresses the concern raised by certain respondents in paragraph BC.103. PSAB's definitions of "financial instrument assets" and "financial instrument liabilities" align with other standard setters' definitions of "financial assets" and "financial liabilities".

BC.119 Funds may be received that are externally restricted for a stipulated purpose. These are different from endowments that are externally restricted in perpetuity (i.e., access to the funds is externally restricted as noted in paragraph BC.115). These externally restricted funds include:

(a) funds that are externally restricted to be used for a stipulated purpose, and that purpose has not been satisfied as required by RESTRICTED ASSETS AND REVENUES, Section PS 3100;

(b) an operating transfer, until the transfer has been used for operations as required by GOVERNMENT TRANSFERS, Section PS 3410; and

(c) a capital transfer or donation to acquire or develop a tangible capital asset, and that purpose has not been satisfied.

BC.120 If these externally restricted funds received are removed from the calculation of the net financial assets or net financial liabilities indicator, it would show the entity in a worse net financial assets or net financial liabilities position. But in these cases, the entity received funds that will be used to settle the related financial liability or are available to settle other liabilities or for spending on operations (see paragraph PS 1202.AG.09). These funds meet the definition of a financial asset (i.e., an asset that could be used to discharge existing financial liabilities or spend on future operations and is not for consumption in the normal course of operations). Only externally restricted financial assets that are prevented from being accessed and are thus not available to discharge existing financial liabilities or spend on future operations would be removed from the calculation.

Liability side of the calculation

BC.121 When developing the revised calculation, PSAB noted the following liabilities that would not be settled through the use of financial assets:

(a) a liability related to a capital transfer received that will be settled as the asset bought or built with the transfer (initial stipulation) is used to provide services (additional stipulations that give rise to paragraph PS 3410.23(c) obligations); and

(b) performance obligations that will not be settled through the use of financial assets.

Liabilities related to capital transfers received that will be settled as the related assets are used to provide services

BC.122 Capital transfers received create obligations that may be recognized as liabilities until the related asset is bought or built or alternatively until the related asset is used, as allowed by Section PS 3410, if they meet the definition of a liability.

BC.123 If stipulations only require a capital transfer recipient to buy or build a capital asset, the obligation that arises, if it meets the definition of a liability, will be settled through the use of financial assets (i.e., the government transfer received). As a result, this liability would be a financial liability and not excluded from the calculation of net financial assets or net financial liabilities, nor would the related financial assets.

BC.124 In some cases, however, capital transfer stipulations alone or stipulations plus the transfer recipient's actions and communications require the transfer recipient to buy or build a capital asset (initial stipulation) and then use it to provide services (additional stipulations). The financial assets received in the transfer are used to buy or build the capital asset, thus, satisfying the initial obligation, if it meets the definition of a liability. As the asset is acquired or built, however, a further obligation may exist if additional stipulations alone or additional stipulations plus the transfer recipient's actions and communications require the recipient to use the tangible capital asset to provide services and this obligation meets the definition of a liability. This liability would not be settled through the use of financial assets, but rather would be settled as the service potential of the asset is consumed to provide services. It would be excluded from the net financial assets or net financial liabilities calculation because it does not require future resources to fund it; it has already been funded. Some entities refer to this liability as "spent deferred capital contributions". Revenue recognition of the capital transfer received would occur as the related asset is used to provide services.

Performance obligations that will not be settled through financial assets

BC.125 Some performance obligations will not be settled using financial assets. One clear example is performance obligations that arise from PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160, under the user-pay model. Under the user-pay model, the public sector entity would not have a contractual obligation to pay cash or another financial asset to the private sector partner in exchange for the infrastructure (see definition of public private partnership in paragraph PS 3160.01 and user-pay model in paragraph PS 3160.05(d)). Instead, the public sector entity grants the private sector partner the right to earn revenue from third-party users or access to another revenue-generating asset as compensation. The public sector entity recognizes a liability as part of granting the private sector partner the right. Revenue is recognized and the liability reduced in accordance with REVENUE, Section PS 3400, as the public sector entity's performance obligation is met under the terms and conditions of the arrangement. Such a liability (performance obligation) should not be part of the net financial assets or net financial liabilities calculation because it is not settled using the public sector entity's financial assets.

The way forward

BC.126 In determining the way forward, PSAB considered two options:

(a) Option 1: The calculation would be financial assets less liabilities other than those that will not be settled through the use of financial assets.

(b) Option 2: Create two categories of liabilities: financial liabilities and non-financial liabilities. Financial liabilities would be defined in terms of settlement through the use of financial assets, and that definition would determine whether a liability is financial or non-financial. The net financial assets or net financial liabilities (formerly known as “net debt”) indicator would then be the difference between financial assets and financial liabilities.

BC.127 PSAB decided to proceed with Option 2 for the following reasons:

(a) This option is consistent with the option selected for the assets to be included in the calculation.

(b) This option simplifies the calculation and reduces the risk of misunderstanding or debates as compared to Option 1.

(c) Liabilities related to a capital transfer received that will be ultimately settled as the asset bought or built with the transfer is used to provide services would fall into the non-financial liabilities category. Such obligations, if they meet the definition of a liability, would not be settled through the use of financial assets as the related contribution has already been spent to buy or build the related asset. This option would yield an appropriate indicator as these liabilities should be excluded from it based on the discussion in the section “Liabilities related to capital transfers received that will be settled as the related assets are used to provide services,” starting at paragraph BC.122.

(d) Those performance obligations that will not be settled through the use of financial assets would fall into the non-financial liabilities' category. This option would yield an appropriate indicator as such performance obligations should be excluded from it based on the discussion in the section “Performance obligations that will not be settled through financial assets,” starting at paragraph BC.125.

BC.128 This decision has a few implications:

(a) The narrow definition of “financial liabilities” relating only to financial instruments was removed from Section PS 3450. A broader definition of "financial liabilities” is included in Section PS 1202. A definition of “financial instrument liabilities” has been added to Section PS 3450.

(b) Consequential amendments were made to the government transfers standard in Section PS 3410 to provide guidance on presenting capital transfers received that meet the definition of a liability, as financial or non-financial liabilities. This guidance assists in determining whether and when capital transfers received that meet the definition of a liability are to be included in, or excluded from, the calculation of the net financial assets or net financial liabilities indicator. These amendments do not change the accounting for government transfers or the net financial position of the entity. These amendments are presentation-only changes.

(c) Consequential amendments were made to the public private partnerships' standard in Section PS 3160 to add guidance in relation to the presentation of liabilities as financial or non-financial. This guidance assists in determining whether public private partnership obligations are to be included in, or excluded from, the net financial assets or net financial liabilities calculation.

BC.129 Endowments that are externally restricted in perpetuity have been identified as an example of items that would be excluded from the net financial assets or net financial liabilities calculation even though a standard on this topic has not yet been developed. This is meant to illustrate the possible application of the definitions and does not presuppose the accounting that would be established by PSAB in a future project.

BC.130 Endowments that are externally restricted in perpetuity are excluded from the calculation if they do not meet the financial asset definition (i.e., if they are assets that cannot be used to settle a financial liability or spend on future operations because of restrictions preventing access to these assets). Depending on PSAB’s conclusions in a future project as to whether or when endowments are financial assets, and whether the receipts represent a liability, revenue or credit to accumulated other, the impact on the calculation will vary.

Feedback on the revised calculation

BC.131 A few respondents to the Exposure Draft noted that:

(a) determining whether a liability is financial or non-financial is complex; and

(b) removing certain liabilities from the calculation of net debt would complicate the budgeting process for the indicator and the change in it.

Financial and non-financial liabilities

BC.132 PSAB concluded that input received on the financial/non-financial liability distinction was sufficiently supportive that it should be retained. However, based on the feedback received, the Board concluded it needed to:

(a) simplify the non-financial liability definition;

(b) include additional guidance to help entities determine if a liability is financial or non-financial; and

(c) include examples to illustrate the additional guidance.

These changes responded to the issues raised and clarified the Board’s intent with the Exposure Draft proposals.

BC.133 In developing the Exposure Draft, PSAB had decided the same simple split between financial assets and non-financial assets could not be replicated for the distinction between financial and non-financial liabilities. Precision was deemed necessary in the non-financial liability definition to ensure that only certain types of liabilities would be excluded from the calculation of the net financial assets or net financial liabilities indicator because they had been identified as distorting this measure. The objective was to return the indicator to its original meaning, financial resources available or financial resource requirements. The proposed calculation would exclude from the indicator only those liabilities that, at the financial statement date, could not be settled through the use of financial assets, and wording was developed to reach that objective. In the Exposure Draft, three specific types of liabilities were excluded from the calculation:

(a) liabilities arising from the user-pay model of public private partnership;

(b) liabilities settled through the use of a tangible capital asset acquired through a transfer, often called "spent deferred capital contributions"; and

(c) non-financial performance obligation liabilities that will be settled by providing an individual or another entity with certain rights of access (simple, exclusive, unrestricted, restricted, shared) to assets or resources over the term of the arrangement.

Types (a) and (b) were clear to respondents but type (c) caused confusion, and this and other unearned revenue liabilities are the types for which PSAB created additional guidance.

BC.134 Respondents indicated that the distinction between financial and non-financial liabilities in the definitions and related guidance was not clear. For ease of application, they insisted the same simple distinction made for assets was necessary for liabilities, even if more liabilities might potentially be excluded from the net financial assets or net financial liabilities indicator. They suggested PSAB develop guidance to help supplement and operationalize the simpler distinction in the definitions.

BC.135 Other issues raised included:

(a) Confusion over reference in the non-financial liability definition that non-financial liabilities are not limited to non-financial performance obligations.

(b) A perception that the proposed definitions might allow more than two categories of liabilities: financial, non-financial and "other."

(c) Use of the term "expected" in the financial liability definition versus the term "cannot" in the non-financial liability definition appeared to add complexity. (This is addressed in "Simplifying the financial/non-financial liability distinction", starting at paragraph BC.136.)

(d) Budget projections of the net financial assets or net financial liabilities indicator may be complicated by the proposed financial/non-financial liability distinction.

(e) A request for examples of which liabilities would be classified as non-financial.

Simplifying the financial/non-financial liability distinction

BC.136 In the Exposure Draft, the proposed definition of financial asset was the keystone. The proposed definitions of non-financial asset and financial and non-financial liability flowed from it, as follows:

(a) A non-financial asset is any asset that does not meet the financial asset definition.

(b) A financial liability is one that, at the financial statement date, can and is expected to be settled using financial assets.

(c) A non-financial liability is a liability that cannot be settled through the use of financial assets but only through the use of non-financial assets or economic resources excluded from recognition.

BC.137 While the Exposure Draft did not explicitly state this, it could be inferred from the proposals that a non-financial liability would be any liability that does not meet the financial liability definition. What the Exposure Draft meant was, at the financial statement date, such a liability cannot and is not expected to be settled using financial assets.

BC.138 Given the confusion with this guidance and the request for simplification, PSAB agreed to simplify the definitions of financial and non-financial liabilities to refer only to whether the liability is expected to be settled using financial assets. Any liability not meeting the financial liability definition would be classified as a non-financial liability. So, in Section PS 1202, the financial asset definition remains the keystone, which is important given users' familiarity with the definition and examples of financial assets.

BC.139 In evaluating the feedback received, PSAB considered whether for liabilities, the non-financial liability definition could be the primary determinant of liability classification. That is, any liability not meeting the non-financial liability definition would automatically have to be a financial liability. This approach would put the emphasis on the exclusions from the net financial assets or net financial liabilities indicator. But intuitively, the Board concluded it was more natural, and consistent with the approach to financial and non-financial assets, to define what is "financial" before defining "non-financial". Logically, non-financial should be the opposite of financial – not the other way around. And this is the approach taken in Section PS 1202, consistent with the distinction between the two classifications of assets.

BC.140 PSAB has enhanced and explained the definitions and related guidance for the distinction between financial and non-financial liabilities. The core text of Section PS 1202 identifies clear examples of financial and non-financial liabilities and adds criteria in application guidance paragraphs PS 1202.AG.03-.04 in Appendix A for classifying liabilities that are more complex to evaluate (i.e., "unearned revenue" liabilities as described in paragraph PS 1202.108). The decision trees in Appendices D and E, and the illustrative examples in Appendix F of Section PS 1202 supplement this guidance.

BC.141 The criteria and supplemental guidance address concerns that this approach might be applied too liberally and exclude too many liabilities from the net financial assets or net financial liabilities indicator. This new guidance was drafted to answer specific comments, questions and requests for clarification received in Exposure Draft responses. Text removed from the Exposure Draft definition of non-financial liabilities was retained in the core text of Section PS 1202 or the Application Guidance in Appendix A.

BC.142 A critical distinguishing criterion for classifying a liability as financial is whether settling the liability will involve an expenditure (i.e., an outflow or disbursement) of financial assets.

BC.143 A critical distinguishing criterion for classifying a liability as non-financial is the expectation that it will be settled through:

(a) the obligated entity using one of its non-financial assets or unrecognized economic resources to settle the liability; or

(b) the obligated entity allowing an external party to use or to access one of its non-financial assets or unrecognized economic resources.

Other nuances regarding settlement may be possible, but a preponderance of evidence that either of these is expected as the primary basis of settlement would determine the liability's classification as non-financial at the financial statement date.

Reference in non-financial liability definition that they are not limited to non-financial performance obligations

BC.144 The Exposure Draft proposed definition of non-financial liability indicated that non-financial liabilities were not limited to non-financial performance obligations. There were two reasons for this statement:

(a) Section PS 3400, indicates that performance obligations arise from exchange transactions. Section PS 3410 identifies government transfers as non-exchange transactions. Obligations arising from some government capital transfers received, if they meet the definition of a liability, are comparable in substance to non-financial performance obligations. 11 PSAB's objective was to include this clarification in the non-financial liability's definition.

(b) Precision was deemed necessary in the non-financial liability definition to ensure that only certain types of liabilities identified as distorting the net financial assets or net financial liabilities measure would be excluded from its calculation.

BC.145 In simplifying the definitions of financial and non-financial liabilities, PSAB removed the statement about non-performance obligations, electing instead to retain it in the guidance explaining the definition and expand on its meaning (see paragraph PS 1202.AG.33).

Perception that the proposed definitions might allow more than two categories of liabilities, financial, non-financial and "other"

BC.146 PSAB concluded that the simplified financial and non-financial liability definitions cover the universe of liabilities and that all liabilities would fall into one of these two categories. There would be no "other" category of liabilities. Paragraph PS 1202.083 sets out this conclusion. A similar paragraph (paragraph PS 1202.050) was added for assets. Guidance for determining whether to classify a liability as financial or non-financial was added to the core text of Section PS 1202, the application guidance in Appendix A, the decision trees in Appendices D and E and the illustrative examples in Appendix F. The guidance includes criteria for identifying when a liability has characteristics that would impact how it is settled and thus whether to classify it as financial or non-financial.

Implications for budgeting for net financial assets or net financial liabilities (formerly known as "net debt" and "the change in net debt")

BC.147 Public sector entities may or may not prepare a budget projecting a year end statement of financial position. However, some governments will budget for net debt and indicators that reference net debt, such as net debt to gross domestic product (GDP). PSAB received input that refining the calculation of net debt by removing non-financial liabilities would complicate the budgeting process for net debt and the change in net debt. Ultimately, the Board concluded that returning net debt to its original meaning by excluding from its calculation liabilities that, given their nature, terms and conditions at the financial statement date, will not require a future sacrifice of financial assets, remained appropriate. The importance of net debt as an accountability measure of future revenue requirements demands the calculation be refined. The Board concluded the nature of non-financial liabilities described in paragraph PS 1202.100 is that they are generally long term and comprise amounts whose balances and allocation to future periods' revenue are normally known to the public sector entity from the time of initial recognition. Thus, their addition to a budget calculation of the indicator would be relatively straight-forward.

Examples of which liabilities would be classified as non-financial

BC.148 Respondents to the Exposure Draft requested PSAB provide examples of types of liabilities that would be classified as non-financial and explanations as to why that classification is appropriate. The Board concluded that some liabilities are clearly financial in nature and some liabilities are clearly non-financial. The Board identified these in paragraph PS

1202.107. However, the Board also agreed with respondents that some liabilities are more difficult to classify (i.e., those arising from "unearned revenue", as described in paragraph PS 1202.108). For those, the Board developed criteria and guidance to assist in classification decisions in Appendices A, D, E and illustrative examples in Appendix F. The appendices relate only to determining classification of liabilities of the types described in paragraph PS 1202.108.

BC.149 Many liability examples were raised by Exposure Draft respondents requesting a conclusion as to whether they were financial or non-financial, including the performance obligation examples in Appendix C of Section PS 3400.

BC.150 PSAB concluded it would not make consequential amendments to the examples in Appendix C of Section PS 3400 to indicate whether any liabilities arising in the scenarios were financial or non-financial. The purpose of the Section PS 3400 examples was to illustrate the requirements of Section PS 3400 and the scenarios do not provide sufficient information for classifying the liability. Instead, in developing the illustrative examples for Section PS 1202 , the Board built on some of the scenarios from Appendix C of Section PS 3400, indicating in a footnote where this occurred.

BC.151 PSAB did not develop illustrative examples for all liability types respondents raised. The Board felt the volume of examples would result in prescriptive rather than principled guidance. The risk is the examples are referenced instead of the text in Section PS 1202 to determine liability classification even though they are merely illustrative and comprise level (iii) GAAP per GENERALLY ACCEPTED ACCOUNTING PRINCIPLES paragraph PS 1150.03(d). Instead, the Board developed examples focused on illustrating how to apply the criteria in Section PS 1202 and related Appendix A for distinguishing between financial and non-financial liabilities that are unearned revenue. The examples include explanations of any conclusion with reference to the criteria.

Benefits of the net financial assets or net financial liabilities (formerly known as "net debt") calculation

BC.152 The following are the benefits of the revised calculation:

(a) The indicator represents more clearly what it was intended to report (i.e., financial resource requirements or financial resources on hand).

(b) By virtue of the definition changes, items, transactions or other events that PSAB may consider in the future (e.g., endowments) can easily fit into one of the two asset or two liability categories.

(c) By virtue of the definition changes, it will be clear that items currently called "spent deferred capital contributions" by some entities will be non-financial liabilities excluded from the calculation.

(d) It provides an opportunity to rename the indicator.

Renaming the net debt indicator

BC.153 Some respondents to the Statement of Principles encouraged PSAB to rename the "net debt indicator". They felt that the "net debt" label:

(a) could be confused with "total debt", "long term debt", "issued debt net of sinking funds" or "net liabilities"; and

(b) does not resonate well with its meaning (future resources required to settle past spending).

BC.154 They also indicated that the calculation of the indicator is based on liabilities that include debt and other liabilities, and so should reference liabilities, not just debt.

BC.155 Introducing a financial liabilities category presented the opportunity to reflect on whether net debt should be renamed "net financial liabilities". Various affected and interested parties suggested this phrase in previous discussions. However, it was inappropriate at the time because no financial liabilities category existed. Now that it does, PSAB decided to replace the term "net debt" with "net financial liabilities". The Board considered other terms such as "unfunded past spending" and "future spending burden", but concluded that "net financial liabilities" is most appropriate.

BC.156 Replacing the term "net debt" with "net financial liabilities" may help users distinguish the indicator from the terms "debt", "gross debt" or "total debt". Because the calculation is being revised, its own statement is being introduced, and the term "net debt" is not used appropriately, PSAB determined this was the right time to rename the indicator. However, because the term "net debt" is used in comparison to GDP, and this ratio is used widely in evaluating the finances of many governments, the Board acknowledges replacing the term may cause some initial confusion.

Providing an explanation of the net financial assets or net financial liabilities indicator

BC.157 The Exposure Draft proposed an explanation of the meaning of the net financial assets or net financial liabilities indicator be included on the statement of net financial assets or net financial liabilities. Many respondents disagreed with including the explanation of the indicator on the statement of net financial assets or net financial liabilities for various reasons.

BC.158 After reflecting on all the comments received, PSAB decided to remove the requirement to include an explanation of the indicator.

Applicability of the net financial assets or net financial liabilities indicator

BC.159 After considering respondents' comments and reviewing the reporting of various types of public sector entities, PSAB recognized the possibility that the net financial assets or net financial liabilities indicator may not provide useful accountability information for the users of all public sector entities' financial statements. Determining its applicability is outside the project's scope. Through the Concepts Underlying Financial Performance project, the Board created a reporting model that will be used as a benchmark. However, in its 2022-2027 Strategic Plan, the Board indicated that it will explore whether customized reporting would be beneficial for any types of public sector entities.

REPORTING CHANGES IN FINANCIAL POSITION

Former statement of change in net debt or net financial assets

BC.160 In the Statement of Principles, PSAB proposed to discontinue the requirement to present a statement of change in net debt or net financial assets for the following reasons:

(a) Some interested and affected parties voiced concern that the statement is not understandable and, so, does not provide useful accountability information.

(b) Attempts to amend the statement did not provide any one presentation that was more understandable.

BC.161 Most respondents agreed with the proposal to remove the statement of change in net debt or net financial assets.

BC.162 Some respondents, however, disagreed with the proposal and were concerned that important accountability information was being lost, such as:

(a) the relationship between the indicator and non-financial assets;

(b) how the entity's investment in or use of prepaid service capacity (primarily in the form of tangible capital assets) has impacted the entity's ability to respond to service needs and its continued resource requirements;

(c) the impact of remeasurement gains or losses on net financial liabilities or net financial assets in the period; and

(d) the budgeted net financial liabilities or net financial assets amount and change in it.

BC.163 Respondents also indicated that removing the requirement to present a statement of change in net debt or net financial assets further diminishes the importance of the net financial liabilities or net financial assets indicator. Relegating the actual-to-budget comparison of capital expenditures to the notes was also a related issue for some.

BC.164 As a result of this feedback, PSAB issued the Exposure Draft proposing that the presentation of the change in net financial assets or net financial liabilities would be optional. If an entity chooses to present the change in net financial assets or net financial liabilities, it would do so on the statement of net financial assets or net financial liabilities. The presentation would include budget amounts and the information presented would have to be understandable and useful for accountability purposes. One possible way to present this information is illustrated in Appendix L to Section PS 1202.

BC.165 Most respondents to the Exposure Draft agreed with this proposal.

Disclosing actual-to-budget capital expenditures in the notes to the financial statements

BC.166 PSAB proposed that the requirement to present actual capital expenditures compared with those budgeted, which existed as part of superseded paragraphs PS 1201.100 and PS 1201.131, should be retained and added as a disclosure requirement in Section PS 1202 for those entities that choose not to present the change in net financial liabilities (formerly "net debt") or net financial assets. The Board is of the strong opinion that this comparison is important because many public sector entities have significant holdings of tangible capital assets representing significant service capacity.

BC.167 There was general support for the proposal, and it was retained.

Statement of changes in net assets or net liabilities

BC.168 The statement of changes in net assets or net liabilities presents a reconciliation between the opening and closing balances of each component of net assets or net liabilities.

BC.169 All revenues and expenses arising in the period are captured in the statement of changes in net assets or net liabilities. The statement's purpose is to be transparent with respect to those revenues and expenses recognized in surplus or deficit of the period and those recognized directly in net assets or net liabilities. The statement also captures changes in issued share capital, if applicable.

BC.170 Most respondents agreed with adding this statement.

BC.171 Introducing various components of net assets or net liabilities makes this statement necessary to allow users to see:

(a) all revenues and expenses of the period; and

(b) a snapshot in one statement of the nature of the various components and what is recognized in them.

BC.172 The statement of changes in net assets or net liabilities links with:

(a) the statement of operations: the surplus or deficit of the period is presented in the accumulated surplus or deficit section of the statement of changes in net assets or net liabilities and links to the surplus or deficit indicator on the statement of operations; and

(b) the statement of financial position: each component in the statement of changes in net assets or net liabilities links to each component of net assets or net liabilities presented on the statement of financial position.

BC.173 PSAB considered a columnar format to show the reconciliation. The Board concluded it was more visually complex than the one illustrated in the Appendices to Section PS 1202. Also, it was difficult to compare two periods as they did not appear side by side.

Accumulated surplus or deficit

BC.174 Many municipal respondents encouraged PSAB to replace "accumulated surplus or deficit" with another term because there is often a misconception among taxpayers as to what an accumulated surplus is. They explained that surpluses may be generated by funding received in relation to capital projects. This funding is recognized in revenue; however, the capital acquisition is recognized as a tangible capital asset, not expensed. This creates a misconception that a public sector entity, such as a municipality, has a surplus or excess funds when it does not. Similarly, a deficit may be generated because amortization expense is recognized and there is no "matching" revenue stream. This creates a misconception that a municipality may have poor financial planning.

BC.175 PSAB acknowledges the importance of making financial statements understandable. Therefore, the Board encourages entities to include a reference on the face of the statement of financial position and on the statement of changes in net assets to the financial statement note or schedule where any breakdown of accumulated surplus or deficit is presented.

BC.176 The terminology used is consistent with what is already used in practice in Canada and what is already used by other public sector standard setters, such as the IPSASB.

Accumulated remeasurement gains and losses

BC.177 The accumulated remeasurement gains and losses component of net assets or net liabilities presents similar information about remeasurements that was required in the statement of remeasurement gains and losses in the reporting model in superseded Section PS 1201.

BC.178 When developing standards, PSAB may require that revenues and expenses arising from remeasurements in addition to those related to financial instruments and foreign currency be recognized in the accumulated remeasurement gains and losses component.

BC.179 An entity may retain a statement or schedule of remeasurement gains and losses to show the details related to this component of net assets or net liabilities if such detail is deemed excessive for an understandable statement of changes in net assets or net liabilities. However, a supporting statement or schedule of remeasurement gains and losses is not mandatory.

BC.180 Section PS 1202 requires that changes related to remeasurement gains or losses should be recorded in accumulated remeasurement gains and losses, while losses arising from asset impairment and changes in valuation allowances be recorded as expenses. Some respondents indicated that gains from changes in valuation allowances should also be dealt with as the treatment of them is not clearly specified in the standard. However, PSAB noted that the subject of gains is a standards-level issue and may be unique to individual types of transactions and so was outside the scope of the Concepts Underlying Financial Performance project.

Accumulated other

BC.181 The accumulated-other component was developed as there was a need to create a reporting model that had tools to deal with emerging issues. The accumulated-other component:

(a) builds on the superseded reporting model wherein certain revenues and expenses (e.g., unrealized remeasurements arising from financial instruments carried at fair value) are recognized directly in a component of net assets or net liabilities (i.e., accumulated remeasurement gains and losses);

(b) aligns with the IPSASB's reporting model, as both reporting models (PSAB's and IPSASB's) recognize certain revenues and expenses directly in net assets or net liabilities; and

(c) allows the reporting model to be sustainable and sets the stage for establishing standards for years to come, as it is not restricted to just unrealized remeasurements being recognized outside of surplus or deficit in the period they arise.

BC.182 Refer to paragraphs BC.045-BC.094 for more information on this component.

BC.183 When it approved Section PS 1202, PSAB had not identified any revenues and expenses to be recognized directly in the accumulated-other component of net assets or net liabilities.

Guidance to include with the accumulated-other component

BC.184 The guidance related to the accumulated-other component is included in Section PS 1202, paragraphs PS 1202.147-.152 and PS 1202.160-161.

BC.185 That guidance explicitly:

(a) restricts the direct recognition of revenue or expense to any component of net assets or net liabilities to those specific situations permitted by PSAB. This restriction would ensure consistent treatment and limit direct recognition of revenue or expense in the components.

(b) indicates that standards alone specify if and when amounts previously recognized in accumulated remeasurement gains and losses and, if applicable, accumulated other, are reclassified to the statement of operations or another component of net assets or net liabilities.

BC.186 If, in developing a future standard, PSAB determines there is no clear and objective basis for identifying:

(a) when to reclassify the revenue or expense to surplus or deficit; and/or

(b) the amount to reclassify,

PSAB will not require reclassification of revenue or expense to one or more future surpluses or deficits. The Board would include the reasoning for this determination in that standard's Basis for Conclusions with reference to paragraph PS 1202.149.

BC.187 When PSAB uses the accumulated-other component, it will justify why such recognition provides better information for accountability purposes in the Basis for Conclusions of the applicable standard.

BC.188 Items that go in this component do not necessarily stay in the component on a permanent basis (as indicated in paragraph BC.067).

Illustrative financial statements

BC.189 The illustrative financial statements in the Exposure Draft included a transaction in the accumulated-other component: the recognition of the credit entry for cash received that is similar to an endowment that is externally restricted in perpetuity. A few respondents suggested removing this transaction from the illustrative financial statements since the PSA Handbook does not include a standard on endowments.

BC.190 An endowment transaction was used to demonstrate how the accumulated-other component would work. If the endowment transaction was removed, it would be difficult to illustrate the accumulated-other component. PSAB considered other examples, however, this was the most reasonable because CONTRIBUTIONS – REVENUE RECOGNITION, paragraph PS 4210.29, states that under the deferral method, endowment contributions are recognized as direct increases in net assets. This Section does not apply to all public sector entities. However, it is a Section in the existing PSA Handbook that the Board could look at when developing an endowment standard for all public sector entities. And, because it is an existing standard for some public sector entities (i.e., GNFPOs) that allows direct recognition in net assets, the Board is not presupposing the accounting to be required by a new standard on endowments; it is reflecting an existing allowed accounting treatment. The only new aspect in the illustration is indicating a specific component of net assets or net liabilities in which such direct recognition might occur.

BC.191 This illustrative transaction does not presuppose that in the future PSAB will develop a standard for all public sector entities that will allow endowments to be reflected directly in net assets or net liabilities. Such a conclusion can be reached only after following the due process and conducting the appropriate research. The intent of the illustration is to show that the Board has a new alternative to consider when resolving standards-level issues.

BC.192 When PSAB decides to designate a transaction or other event in the accumulated-other component, it may decide to replace the example in the illustrative financial statements.

Issued share capital

BC.193 This component would only be presented by those entities that have issued share capital.

BC.194 It is important to show this component separately for transparency and because it is different in substance from the other components.

BC.195 The issued share capital component is consistent with the Conceptual Framework. Chapter 6 of the Conceptual Framework signals that some items can be recognized directly in a component of net assets or net liabilities. Only PSAB can identify the components of net assets or net liabilities. For those public sector entities that have equity ownership interests in the form of issued share capital, the Board decided to recognize their existence in a component of net assets or net liabilities, called "issued share capital". Further, Chapter 8 of the Conceptual Framework indicates that changes in issued share capital do not represent revenue and expense but, instead, are direct increases or decreases in net assets or net liabilities.

BC.196 In determining whether a transaction is "issued share capital", an entity would consider if the transaction is more similar to a government transfer or a loan. If so, it would be accounted for in accordance with the relevant standard. Each transaction would be carefully reviewed to determine its economic substance. As indicated in Chapter 7 of the Conceptual Framework, "substance over form" is an aspect of faithful representation, a qualitative characteristic of financial information. The general presentation principles in Section PS 1202 reiterate the importance of reflecting the economic substance of items, transactions or other events in financial statements.

BC.197 In response to feedback, PSAB has provided additional guidance in Section PS 1202 in relation to this component. The guidance is based on that issued by the IPSASB and is at the appropriate level of guidance for the reporting model. Further guidance could be provided in a separate standard, however, this is outside the scope of the project. From a Section PS 1202 perspective, the Board provided the ability for entities that have issued share capital to reflect it in their financial statements, outside of revenue or expense, if the transaction truly does not comprise a revenue or expense.

Use of the accumulated-other and the accumulated-remeasurements components

BC.198 When PSAB decides to use the accumulated-other or accumulated remeasurement gains and losses component, it would follow its due process and seek feedback. The relevant Basis for Conclusions accompanying any standard requiring recognition of a revenue or expense in accumulated other or accumulated remeasurement gains and losses would include an explanation that:

(a) justifies why using the component for recognition of a revenue or expense rather than recognition in the surplus or deficit in the period it arises better serves the accountability objective;

(b) explains the basis on which the revenue or expense will be reclassified for recognition in a future period(s) surplus or deficit; or

(c) indicates why the revenue or expense will not be reclassified for recognition in a future period(s) surplus or deficit by demonstrating there is no clear and objective basis for identifying when to reclassify such items to surplus or deficit or the amount of such items.

Statement of cash flow

BC.199 The main amendment to the statement of cash flow is the isolation of financing activities.

BC.200 Highlighting the net cash available or the cash deficiency before financing activities after opening cash and cash equivalents and all other categories of inflows and outflows of cash for the period are presented, makes the statement of cash flow more understandable to users. This presentation shows whether all of an entity's other activities combined resulted in the need for cash to be raised through financing activities. The presentation highlights one aspect of the entity's sustainability. Reporting sustainability is an important dimension of accountability reporting many respondents to Consultation Papers 1 and 2 recognized.

BC.201 Respondents raised several questions on the guidance found in the Statement of Cash Flow section and outlined several areas where they felt more guidance was needed. PSAB reviewed the feedback and concluded the most appropriate path forward in ensuring more complete guidance would be to add a Statement of Cash Flow project to the Board's potential project list, and to discuss the statement at the Public Sector Accounting Discussion Group, which occurred in November 2022.

COMPARING ACTUAL FINANCIAL PERFORMANCE TO THAT BUDGETED

Applicability of the budget requirements

BC.202 The actual-to-budget comparison provides key accountability information about an entity's financial performance as reported in financial statements in achieving its financial objectives as outlined in the budget. It is considered a crucial aspect of the accountability cycle. All public sector entities should be held accountable for performance against their budget, regardless of how the entity obtains its funds. Accountability must be demonstrated for the use of public funds received as well as for the use of all other types of funding. Refer to paragraphs 2.27-2.33 of the Conceptual Framework for an expanded discussion on the importance of the budget.

The budget requirements

BC.203 Superseded paragraph PS 1201.130, stated: "The statement of operations should present a comparison of the results for the accounting period with those originally planned. Planned results should be presented for the same scope of activities and on a basis consistent with that used for actual results." For Section PS 1202, PSAB retained the requirement for the original budget to be presented on the statement of operations. However, the Board provided greater clarity, as the requirements specify that the budget presented should be on the same basis of accounting, following the same accounting principles, for the same scope of activities and using the same classifications as the actual amounts, rather than only referencing "scope" and "a basis". As a result, the requirement to present the budget is consistent with that in superseded Section PS 1201.

BC.204 The budget principles are intended to encourage the preparation of the budget on the same basis of accounting, using the same accounting principles, for the same scope of activities and using the same classifications as the financial statements. If budgets are prepared in the same way that the financial statements are prepared, reconciliations between the approved budget and the budget presented on the face of the statements are minimized or eliminated. This would increase the accountability value of the information financial statements provide, as reconciliations and restatements may be difficult for users to understand.

BC.205 However, PSAB does not set standards for the budget. Budgets are policy documents. Therefore, the budget requirements in the PSA Handbook relate solely to the budget amounts presented for comparison purposes with actual amounts in the financial statements. For financial statement purposes, in order to do a meaningful like-for-like comparison for users, the budget amounts presented on the statement of operations need to use the same basis of accounting, principles, scope and classifications as the actual numbers presented on the statement of operations. However, public sector entities may not budget for the same reporting entity (scope) or on the same accounting basis, principles or classifications as the financial statements.

BC.206 So, when the basis of accounting, principles, scope or classifications used in the budget is different from that used for the financial statements, Section PS 1202 requires the approved budget amounts be restated when being presented for comparison purposes in the financial statements. The restated amounts would be identified and reported as such on the face of the statement of operations. Note disclosure or a schedule would reconcile the restated budget numbers back to those approved in the original budget. These are substantially the same budget presentation requirements as in superseded Section PS 1201 and are consistent with current practice.

BC.207 Reconciling items will be specific to each individual entity and determining them is left to professional judgment. For example, entities that do not budget on a full accrual basis may not have an approved budget number for amortization. So, an entity would need to use professional judgment to determine the budget amount for amortization that would be included on the statement of operations.

BC.208 PSAB acknowledges that reconciliations may sometimes be complex, but the actual-to-budget comparison is critical for providing accountability to the public and its elected representatives. Restatement of budget amounts to ensure a meaningful like-for-like comparison with actual amounts may be necessary to provide such accountability.

When the scope of the budget differs from that of the financial statements

BC.209 In the Statement of Principles, PSAB proposed that when the scope of activities in the budget is not the same as the scope of activities in the financial statements (i.e., not all controlled entities are included in the approved consolidated budget), a note would be required on the face of the statement of operations explaining why the actual-to-budget comparison could not be done. The intent of the proposal was to eliminate "scope" reconciliations that were not understandable, consistent with the need for understandable information to achieve the accountability objective.

BC.210 Some respondents indicated that this proposal reduced the accountability value of financial statements because it opened the door for no budget comparison to be provided.

BC.211 PSAB considered this feedback and concluded that it should narrow the circumstances in which the actual-to-budget comparison would be replaced by a note on the face of the statements (e.g., on the statement of operations) indicating and explaining why such a comparison could not be done.

BC.212 PSAB is of the strong opinion that it is in the public interest to have an actual-to-budget comparison on the statement of operations for accountability purposes, whenever possible. To do so, a reporting entity would need to show a reconciliation with scope adjustments in the notes or schedules. The scope adjustments could be the approved budgets of those controlled entities that were not included in the approved consolidated budget for the reporting entity as noted in paragraph PS 1202.214. A reconciliation of the restated budget with that originally approved would need to be provided in the notes or schedules. The restated amounts would appear on the statement of operations.

What happens in those situations where the scope of the reporting entity has changed during the accounting period?

BC.213 PSAB recognizes it is possible for the scope of the reporting entity to change during the accounting period. When the scope of the reporting entity changes during the year due to decisions made with information that was not available when the budget was being approved, the reporting entity would present the original approved budget on the statement of operations.

BC.214 The presentation of the original approved budget on the statement of operations provides good accountability information:

(a) Users can see that the scope changed during the accounting period through explanations in other parts of the financial statements (based on GOVERNMENT REPORTING ENTITY, paragraph PS 1300.39A, that was added as part of the consequential amendments arising from Section PS 1202) or in the Financial Statement Discussion and Analysis (FSD&A). 12

(b) Since the entity budgeted for the scope that existed at the time the budget was approved, it is more transparent for it to be held accountable for the planned scope of activities, while being allowed to explain the extent to which events during the period changed the scope of its activities.

Use of an amended budget

BC.215 PSAB considered various circumstances when developing the requirements related to the use of an amended budget. The Board concluded that the only scenarios are those set out in paragraphs PS 1202.219-.220, as long as the amended budget was approved using the same required due process used to establish the original budget.

BC.216 PSAB also concluded that the use of an amended budget would not be permitted in the following circumstances:

(a) A public sector entity receives additional funds after the budget has been approved for the delivery of a new program. Funding announcements made during the period after the budget has been approved are common in the public sector and often do not trigger the creation of a new budget that gets approved. PSAB decided users' best interests are served by explaining the variance rather than presenting an amended budget.

(b) A public sector entity may need to react to unexpected events, such as fires, floods, financial crises or health pandemics. Often, such events do not trigger the creation and approval of a new budget but rather an update. As a result, PSAB decided users' best interests are served by explaining the variance rather than presenting an updated forecast as the budget for financial statement comparison purposes.

BC.217 With PSAB permitting the use of an amended budget only when there is an election (in relation to governments) or when the majority of the governing body of a government organization has been newly elected or appointed, the Board is recognizing that when there is a change in governance and that new governing body has approved a new budget, that budget could be used. The focus is on the governance, as the governance provides strategic direction in the form of new policy objectives to the public sector entity, which may result in a budget that is different from that approved by the previous governing body.

DISCLOSING NON-COMPLIANCE WITH FINANCIAL AUTHORITIES

BC.218 PSAB recognizes that:

(a) there are many authorities; and

(b) compliance against all these authorities cannot be reflected in financial statements.

BC.219 The intent of the requirement to disclose non-compliance with financial authorities is to highlight when an entity's expenses, expenditures, revenues, borrowing and investing were not within the limits authorized by its financial authorities. This requirement ensures users are informed of an entity's non-compliance with its financial authorities.

BC.220 This requirement is not new. It is also outlined in superseded FINANCIAL STATEMENT PRESENTATION, Section PS 1200 and superseded Section PS 1201.

BC.221 Some public sector entities have enacted their own laws respecting financial administration. For example:

(a) Indigenous governments may have enacted laws in relation to the First Nations Fiscal Management Act (FMA) or their own legislative and law-making framework. A financial administration law under the FMA includes provisions respecting investing, borrowing, spending, resource raising and other financial decision making.

(b) The federal, provincial and territorial governments may have enacted a Financial Administrative Act or equivalent.

BC.222 Other public sector entities may need to comply with financial regulations enacted by others and/or their own policies in relation to expenses, expenditures, revenues, borrowing and investing. For example:

(a) Local governments may need to comply with financial regulations enacted by their respective provincial or territorial government, and/or those they establish.

(b) GNFPOs may need to comply with financial regulations enacted by their controlling government, and/or those they establish.

BC.223 When disclosing non-compliance, public sector entities would disclose non-compliance against the requirements contained in any applicable law/policy respecting financial administration, in relation to revenues, borrowing, investing, expenses and expenditures.

DISCLOSING RISKS AND UNCERTAINTIES

BC.224 Standards in the PSA Handbook set out specific disclosure requirements for risks and uncertainties (e.g., FINANCIAL INSTRUMENTS, Section PS 3450, MEASUREMENT UNCERTAINTY, Section PS 2130, and CONTINGENT LIABILITIES, Section PS 3300). The expectation of the requirement to disclose risks and uncertainties found in Section PS 1202 is to disclose, at a minimum, the risks and uncertainties required by the various standards in the PSA Handbook. At a minimum means that an entity is not precluded from providing disclosure of other risks and uncertainties it deems important for understanding its financial position or changes in financial position.

BC.225 For the time being, PSAB does not intend to add requirements in addition to those currently in the PSA Handbook (e.g., the financial risks reflected in Section PS 3450, or the uncertainty reflected in Section PS 3300). However, in the future, the Board may require additional risk and uncertainty disclosures, and these would be detailed at the standards level (i.e., in a standard that is being developed). Decisions with respect to additional disclosure requirements would only be made following the appropriate due process.

BC.226 Complying with this financial statement objective is limited to disclosing those risks and uncertainties that could affect an entity's financial position or changes in financial position. It is not intended to require disclosure of those risks and uncertainties that are better suited for disclosure outside the financial statements, for example, in an entity's FSD&A.

EFFECTIVE DATE AND TRANSITION

BC.227 Based on feedback from respondents, PSAB decided to delay the effective date to April 1, 2026.

BC.228 The requirements in Section PS 1202 affect the presentation of financial statements. As a result, the presentation of prior year actual amounts would need to be restated. It would be helpful to users to disclose in the notes or schedules that the entity adopted Section PS 1202 and that this adoption led to various changes in presentation for the current and prior year amounts.

BC.229 Since the financial statement objectives outlined in Chapter 6 of the Conceptual Framework foreshadow what is presented in the financial statements, it is appropriate for Section PS 1202 to be implemented at the same time as the Conceptual Framework. Section PS 1202 cannot be implemented before the Conceptual Framework is implemented.

AMENDMENTS MADE AS A RESULT OF THE FINANCIAL INSTRUMENTS NARROW-SCOPE AMENDMENTS PROJECT

BC.230 Superseded Section PS 1201 was amended as a result of decisions made in the Financial Instruments Narrow-scope Amendments project, completed after PSAB issued the Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202." These changes are reflected in Section PS 1202. Please refer to the following Basis for Conclusions documents:

(a) Financial instruments: federal government narrow-scope amendments, Sections PS 1201, PS 2601 and PS 3450 (October 2020);

(b) Financial instruments: foreign exchange narrow-scope amendments, Sections PS 1201, PS 2601 and PS 3450 (April 2021); and

(c) Financial instruments: presentation narrow-scope amendments, Section PS 1201 (April 2021).

CONSEQUENTIAL AMENDMENTS ARISING FROM THE FINANCIAL STATEMENT PRESENTATION STANDARD, SECTION PS 1202

Background

BC.231 The PSA Handbook has been amended to be consistent with the reporting model set out in Section PS 1202. The amendments include:

(a) withdrawing the superseded reporting model standard Section PS 1201;

(b) amending references to the superseded Section PS 1201 to refer to Section PS 1202;

(c) acknowledging multiple components of net assets or net liabilities;

(d) amending references to "net debt" or "change in net debt";

(e) amending references to "statement of remeasurement gains and losses";

(f) introducing "financial instrument assets" and "financial instrument liabilities";

(g) classifying liabilities into financial liabilities and non-financial liabilities for presentation purposes;

(h) introducing new effective dates and transitional provisions relating to amendments to other standards; and

(i) amending references to Section PS 1202 in the Conceptual Framework and its accompanying Basis for Conclusions.

BC.232 The amendments apply to public sector entities that prepare general purpose financial statements in accordance with the PSA Handbook as indicated in the Introduction to Public Sector Accounting Handbook. Amendments have not been made to update the various Sections to replace "government" with "public sector entity". In paragraph 20 of its Basis for Conclusions, "2018-2019 Annual Improvements," PSAB explained that:

> …amending all PSA Handbook Sections to update the term "government" would be beyond the scope of annual improvements, given the significance of the undertaking. Instead, the Board agreed to update this terminology incrementally when standards and other guidance are updated as part of a given annual improvement cycle.

BC.233 In developing the consequential amendments, considerable time was taken to identify necessary amendments through a review of the entire PSA Handbook. However, PSAB recognizes the risk that further required amendments may be identified in the future. Any additional future amendments would be accomplished through the Board's annual improvements process.

BC.234 Some of the consequential amendments are editorial in nature. They do not:

(a) create a new principle;

(b) change an existing principle; or

(c) change practice.

BC.235 Other consequential amendments will change practice in relation to the presentation of financial statements. These primarily relate to:

(a) replacing the superseded reporting model standard, Section PS 1201, with the new reporting model in Section PS 1202, effective for fiscal years beginning on or after April 1, 2026;

(b) acknowledging multiple components of net assets or net liabilities;

(c) amending references to "statement of remeasurement gains and losses"; and

(d) classifying liabilities as financial and non-financial:

 (i) for presentation purposes on the statement of financial position, and

 (ii) to facilitate a refined calculation of the net financial assets or net financial liabilities indicator by removing from the calculation liabilities that do not represent financial resource requirements and were obscuring the meaning of the indicator.

Withdrawal of Section PS 1201

BC.236 As a result of the updates to the Conceptual Framework and the financial statement presentation standard, Section PS 1201 was withdrawn from the PSA Handbook but retained in Archived Pronouncements. Section PS 1201 is replaced in the PSA Handbook by the new reporting model in Section PS 1202. The effective date of Section PS 1202 is for fiscal years beginning on or after April 1, 2026. So, Section PS 1201 would remain effective until that date.

Amending references to the superseded reporting model in Section PS 1201

BC.237 With the withdrawal of Section PS 1201, references to "FINANCIAL STATEMENT PRESENTATION, Section PS 1201" have been replaced with "FINANCIAL STATEMENT PRESENTATION, Section PS 1202" throughout the PSA Handbook. In some cases, the references are to specific paragraphs in Section PS 1202.

BC.238 In LOANS RECEIVABLE, paragraph PS 3050.44, note 4 has been deleted as it is not needed to understand the paragraph.

BC.239 In LEASED TANGIBLE CAPITAL ASSETS, paragraph PSG-2.31, paragraph PSG-4.12, and SALE-LEASEBACK TRANSACTIONS, paragraph PSG-5.56, have been deleted as the paragraphs are out of date. The transitional provisions in these paragraphs date from when local governments were first adopting a full accrual reporting model.

Acknowledging multiple components of net assets and net liabilities

BC.240 ACCOUNTING CHANGES, Section PS 2120, provides guidance on how to apply and disclose a change in accounting policy and a correction of an error. Retroactive application of a change in accounting policy or a correction of an error (with or without restatement of prior periods) requires an adjustment to the opening balance of accumulated surplus or deficit. Section PS 1202 outlines two further components of net assets or net liabilities (accumulated remeasurement gains and losses and accumulated other). So, consequential amendments were made to Section PS 2120 to include consideration of adjustments to the opening balance of these other components as appropriate.

BC.241 Similarly, consequential amendments were made to ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, to include consideration of the various components of net assets or net liabilities in applying the proportionate consolidation method in relation to a non-controlling interest.

Amending references to "net debt" and "change in net debt"

BC.242 Section PS 1202 introduced the term "net financial liabilities" as a replacement for the term "net debt". As a result, consequential amendments were made to reflect the new term in the PSA Handbook. For example, paragraph PS 3450.A69 and the illustrative examples in Appendix B of PSG-5 were amended to replace "net debt" with "net financial assets" or "net financial liabilities".

BC.243 Section PS 1202 removed the requirement to present the statement of change in net debt.

(a) As a result, a consequential amendment was made to paragraph PS 2120.34 to reflect this change.

(b) Paragraphs .2-.8 of "Financial Instruments: Presentation Narrow-scope Amendments, Section PS 1201 — Basis for Conclusions" explain the optionality added in April 2021 to Section PS 1201 to allow entities to present information on the statement of change in net debt to illustrate and explain how fair value measurements of certain financial instruments have impacted the indicator of net debt in the period. The optionality to provide this information is retained in paragraph PS 1202.121 for entities that choose to report the change in the net financial assets or net financial liabilities indicator on the statement of net financial assets or net financial liabilities.

Amending references to "statement of remeasurement gains and losses"

BC.244 Section PS 1202 introduced the statement of changes in net assets or net liabilities. This statement includes a reconciliation of the accumulated remeasurement gains and losses component of net assets or net liabilities. This reconciliation would present similar information about remeasurement gains and losses required in the superseded statement of remeasurement gains and losses. As a result, references to the "statement of remeasurement gains and losses" have been replaced with "statement of changes in net assets or net liabilities" or "statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component", where appropriate.

BC.245 Paragraphs in superseded Section PS 1201 that were specific to presenting remeasurement gains and losses relating to financial instruments were relocated to Section PS 3450. Consequential amendments were also made to the illustration in paragraph PS 3450.A47. The amendments make them consistent with the illustrative financial statements in Section PS 1202 in relation to the statement of changes in net assets or net liabilities and presenting the reconciliation of remeasurement gains and losses on that statement.

BC.246 Last, PSAB concluded that the statement of remeasurement gains and losses would be a required statement for those GNFPOs applying the PS 4200 series of the PSA Handbook. Section PS 4200 requires a statement of changes in net assets or net liabilities. However, this statement outlines the presentation of a different breakdown of net assets or net liabilities than that required for the statement of changes in net assets or net liabilities by Section PS 1202. As a result, to ensure their financial statements present the remeasurement gains and losses in the accumulated remeasurement gains and losses component of net assets, GNFPOs applying the PS 4200 series will need to include a statement of remeasurement gains and losses in their financial statement package. Consequential amendments were made to the respective Sections to provide guidance in relation to the statement of remeasurement gains and losses.

Introducing "financial instrument assets" and "financial instrument liabilities"

BC.247 This Basis for Conclusions outlines that endowment investments that are externally restricted in perpetuity could be classified as non-financial assets. However, endowments are often invested. As a result, one implication of this is that it would make the application of Section PS 3450 difficult for endowments invested, as the Section applies to financial assets. To resolve this issue, PSAB made consequential amendments to Section PS 3450 to refer to those assets and liabilities that are financial instruments as "financial instrument assets" and "financial instrument liabilities". This allows for the possibility that endowment investments restricted in perpetuity could be recognized and measured as financial instrument assets in accordance with Section PS 3450 but presented as non-financial assets in the statement of financial position. Several paragraphs in Section PS 3450 have been amended to replace "financial assets" with "financial instrument assets" and "financial liabilities" with "financial instrument liabilities." Further, references to "financial assets" and "financial liabilities" that relate to financial instruments, have been replaced with "financial instrument assets" and "financial instrument liabilities" across several standards. Paragraphs BC.114-.117 elaborate further on the Board's reasoning for this change.

BC.248 As a result of introducing "financial instrument assets" and "financial instrument liabilities" in Section PS 3450, several other amendments have been made to that standard:

(a) Paragraph PS 3450.004 was removed, as the standard now refers to "financial instrument assets". As a result, reference to the broader definition of "financial assets" is not required.

(b) The definition of "financial assets" was removed from the Glossary of Section PS 3450, as it resides in Section PS 1202 and the narrower definition of "financial instrument assets" now applies in Section PS 3450.

(c) Definition of "financial instrument assets" was added to the Glossary of Section PS 3450. This definition is consistent with how international standard setters define "financial assets" in their financial instrument standards. The broader definition of "financial assets" is only used in Canada, primarily for calculating the net financial liabilities (formerly known as "net debt") or net financial assets indicator.

(d) Definition of "financial liabilities" was converted to "financial instrument liabilities" in the Glossary of Section PS 3450. This definition is consistent with how international standard setters define "financial liabilities" in their financial instrument standards. The broader definition of "financial liabilities" is only used in Canada, primarily for calculating the net financial liabilities (formerly known as "net debt") or net financial assets indicator.

Recognizing "financial liabilities" and "non-financial liabilities"

BC.249 Section PS 1202 introduced categories of liabilities: financial and non-financial. Consequential amendments were made to various standards to recognize the different categories of liabilities and indicate how major types of liabilities are to be classified. The liability classification added to individual standards is consistent with the lists of financial and non-financial liabilities in Section PS 1202.

BC.250 For example, consequential amendments were made to Section PS 3160, to note the following:

(a) liabilities identified under the financial liability model would be classified and presented as financial liabilities; and

(b) liabilities identified under the user-pay model would be classified and presented as non-financial liabilities.

Amending the Conceptual Framework and its Basis for Conclusions

BC.251 Since the Conceptual Framework and its accompanying Basis for Conclusions were released in December 2022, they reference Section PS 1201, as Section PS 1202 did not exist yet in the PSA Handbook. As a result, both have been updated to reference Section PS 1202. Basis for Conclusions documents are point-in-time documents and are not usually updated through consequential amendments. But PSAB concluded the update was appropriate in this case given how interrelated Section PS 1202 and the Conceptual Framework are. Ideally, they would have been issued together.

Other amendments

BC.252 In addition to the above amendments, PSAB amended:

(a) Section PS 1300 to require a reporting entity to disclose scope changes that occur between periods. This was made in response to the feedback received.

(b) Section PS 3050 to ensure consistency with the definition of a "financial asset" in the Glossary of Section PS 1202.

(c) PSG-4 to update the language to be consistent with Section PS 1202 and to clarify that it relates to the accumulated surplus or deficit component of net assets or net liabilities.

Amendments to effective dates and transitional provisions

BC.253 The consequential amendments outlined in this Basis for Conclusions are effective at the same time as Section PS 1202 (i.e., for fiscal years beginning on or after April 1, 2026). As a result, in every standard affected by the consequential amendments, a paragraph was added to transparently indicate what paragraphs have changed, the effective date of the amendments and the transitional provisions of those amendments.

PSAB'S INTERNATIONAL STRATEGY AND SETTING OF FUTURE STANDARDS

BC.254 The Basis for Conclusions accompanying the Conceptual Framework outlined how the Conceptual Framework affects PSAB's International Strategy and the setting of future standards. In doing so, that Basis for Conclusions identified a difference in relation to Chapter 6 of the Conceptual Framework: the IPSASB does not include a section on financial statement objectives in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

BC.255 Articulating the financial statement objectives within a conceptual framework is unique to PSAB and has roots in how the Public Sector Accounting and Auditing Committee (PSAAC) 13 originally built consensus on what financial statements should report. The Board believes there is merit in articulating the financial statement objectives. They flow from and are consistent with the broad accountabilities for public sector financial reporting set out in Chapter 3 of the Conceptual Framework. They provide the basis for determining the principles for the reporting model and the focus of each statement, or "indicators", to be reported on each statement.

BC.256 The impact of this difference is that PSAB's Conceptual Framework provides the conceptual foundation for the Board's reporting model found in Section PS 1202. As a result, when looking at an IPSAS to leverage, the Board would also consider the impact on its reporting model (i.e., Section PS 1202).

Summary comparison of how PSAB's and the IPSASB's reporting models differ and what these differences mean for setting future Canadian standards

BC.257 The summary comparison, which highlights the differences only, is based on the key principles in PSAB's and the IPSASB's reporting model. It is a point-in-time comparison that will be regularly updated and published by PSAB on its website in another form in the future. The IPSASB's reporting model is included in:

(a) the IPSASB's conceptual framework;

(b) IPSAS 1, *Presentation of Financial Statements*;

(c) IPSAS 2, *Cash Flow Statements*; and

(d) IPSAS 24, *Presentation of Budget Information in Financial Statements*.

BC.258 At the time of writing this Basis for Conclusions, the IPSASB was doing initial research for its Presentation of Financial Statements project. This project includes a review of the IPSASB's reporting model in IPSAS 1. As a result, in the future there may be new differences, or the differences noted may be eliminated.

Presentation of assets and liabilities

BC.259 Section PS 1202 requires financial and non-financial assets and liabilities be presented on the statement of financial position. On the other hand, IPSAS 1 requires current and non-current assets and liabilities be presented on the statement of financial position.

BC.260 PSAB considered whether assets and liabilities should be presented as current and non-current. The Board believes that, given the characteristics of public sector entities, it is more important to present the nature of the assets as financial and non-financial on the statement of financial position. Presenting financial and non-financial assets and liabilities helps to calculate the net financial assets or net financial liabilities indicator. If an entity wants to present assets and liabilities as current and non-current, this can be done in the notes to the financial statements. The Board believes that attempting to show this breakdown – in addition to the financial and non-financial presentation on the statement of financial position – would make the statement visually complex.

BC.261 When PSAB sets future standards for specific assets or liabilities by leveraging the principles in an IPSAS, the Board will need to provide additional guidance as to whether such assets or liabilities are financial or non-financial.

Definition of financial assets and financial liabilities

BC.262 The definitions of financial assets and financial liabilities in Section PS 1202 are broader than those in the IPSASs. The financial assets and financial liabilities definitions in the IPSASs are linked to financial instruments.

BC.263 PSAB's definitions of a financial asset and a financial liability are designed for use in calculating the net financial assets or net financial liabilities indicator, an important indicator in the Canadian public sector.

BC.264 PSAB made consequential amendments to refer to "financial instrument assets" and "financial instrument liabilities". The definitions for these terms are similar in substance to the financial asset and financial liability definitions used in IPSAS. So, in setting future standards based on an IPSAS, PSAB will need to clarify whether reference to a financial asset and/or financial liability in an IPSAS should be amended to reference financial instrument assets and/or financial instrument liabilities.

Net financial position

BC.265 In its net financial position indicator, the IPSASB includes other resources and other obligations. PSAB does not.

BC.266 Since the IPSASB has not yet identified any transactions that would fall into the "other resources" or "other obligations" categories, the net financial position indicator of both standard setters is currently the same. If the IPSASB decides to use "other resources" and "other obligations" in an IPSAS that has principles PSAB wishes to leverage, PSAB will need to determine an alternative accounting treatment and presentation that meets the financial reporting objective of providing accountability information. This alternative accounting treatment may or may not lead to the same impact on the net financial position indicator. For example, PSAB may consider the use of the "accumulated-other" component of net assets or net liabilities. The "accumulated-other" component may be used to recognize items, transactions or other events that PSAB feels should be recognized outside of surplus or deficit when they arise, to better serve the accountability objective.

Components of net assets or net liabilities

BC.267 Both the IPSASB and PSAB have:

(a) components that accumulate past surpluses and deficits;

(b) components that accumulate gains and losses related to certain remeasurements / revaluations; and

(c) components related to share capital.

BC.268 The differences in the components of net assets or net liabilities relate to:

(a) the IPSASB's non-controlling interest component;

(b) PSAB's accumulated-other component; and

(c) the items included in the components that accumulate gains and losses related to certain remeasurements / revaluations.

BC.269 In PSAB's reporting model, a non-controlling interest component is not required because, unlike the IPSASB, PSAB requires proportionate consolidation accounting when a non-controlling interest exists. When developing future standards by leveraging principles from an IPSAS that deal with a non-controlling interest, PSAB would need to amend the accounting to be consistent with the proportionate consolidation approach.

BC.270 PSAB has introduced the accumulated-other component. The IPSASB does not have an equivalent component. This component is available to PSAB as a possible recognition option as it develops future standards, as a way to present the economic substance of transactions and other events.

BC.271 PSAB, in its accumulated remeasurement gains and losses component, includes the items identified in FOREIGN CURRENCY TRANSLATION, Section PS 2601, and Section PS 3450. In contrast, the IPSASB's equivalent component is called "reserves" and reserves include items related to foreign currency translation and financial instruments as well as:

(a) changes in revaluation surplus (related to property, plant and equipment and intangibles); and

(b) remeasurements of defined benefit pension plans.

When developing future standards by leveraging principles from an IPSAS, PSAB may decide to include additional items in the accumulated remeasurement gains and losses component.

Statement of operations

BC.272 The two minor differences between the statement under IPSASB's and PSAB's reporting model are:

(a) the name of the statement; and

(b) the presentation of expenses.

Name of statement

BC.273 In developing the Canadian public sector reporting model, PSAB preferred the name "statement of operations" over "statement of financial performance" because financial performance is a broader concept, the reporting of which is beyond the scope of financial statements. 14 Surplus or deficit is only one aspect of financial performance and is the bottom-line indicator on the statement of operations. Further, based on feedback received from Canadians, "statement of operations" is their preferred name. It is not expected that the difference in the name of the statement will have an impact on setting future standards.

Presentation of expenses

BC.274 IPSASB allows presentation of expenses by function or object on the statement of financial performance. PSAB decided to retain existing requirements for presentation of expenses by function on the statement of operations and disclosure of the nature (object) of the expenses in the notes for the following reasons:

(a) it provides accountability for the total costs for each major function of the public sector entity;

(b) it is useful for understanding the cost of the public sector entity's economic resources consumed in meeting its objectives; and

(c) it allows financial statement readers to compare the costs of each function to its total costs and, as a result, obtain information about the public sector entity's priorities (e.g., the percentage of revenue used for education could be compared to the amount used for health).

BC.275 The difference in the presentation of expenses may require PSAB to amend the presentation requirements in future standards it develops by leveraging IPSAS principles to be consistent with the requirement in Section PS 1202, (i.e., to present expenses by function or major program).

Statement of cash flow

BC.276 The IPSASB provides a greater level of detail for this statement in IPSAS 2, a standard separate from the financial statement presentation standard, IPSAS 1. Whereas PSAB deals with the statement of cash flow only in the reporting model standard, at approximately the same level of detail as for other financial statements. In addition to this, two minor differences between the statement of cash flow under IPSASB's and PSAB's reporting models are:

(a) the PSAB requirement for presentation of capital activities; and

(b) the PSAB requirement for isolation of financing activities.

Presentation of capital activities

BC.277 PSAB decided to retain the existing presentation of capital activities in the statement of cash flow, as these are significant in the public sector. This difference may require the Board to amend the presentation requirements in future standards it develops by leveraging IPSAS principles to be consistent with the requirement in Section PS 1202 (i.e., present capital activities within the statement of cash flow).

Isolation of financing activities

BC.278 PSAB decided to highlight net cash before financing activities after all other categories of inflows and outflows of cash for the period are presented and as a result, isolate financing activities. Such presentation would show whether all of an entity's other activities combined resulted in the need for cash to be raised through financing activities. This presentation highlights one aspect of the entity's sustainability. Reporting sustainability is an important dimension of accountability reporting, and it is important to many of the respondents to the Board's Consultation Paper 1, "Characteristics of Public Sector Entities," and Consultation Paper 2, "Measuring Financial Performance in Public Sector Financial Statements." The Board does not expect this difference will affect future standard setting. This cash flow presentation requirement affects only the ordering of the categories of cash flow activities, not the items presented in each category.

Statement of net financial assets or net financial liabilities

BC.279 The IPSASB does not require reporting the net financial assets or net financial liabilities indicator (formerly known as "net debt") in financial statements. So, the IPSASB does not require a statement of net financial assets or net financial liabilities to present the indicator. PSAB does require the indicator and a separate financial statement to report it. PSAB is of the view, and many affected and interested parties strongly agreed, that the net financial assets or net financial liabilities indicator is an important indicator. However, nothing in the IPSAS prohibits a preparer from calculating and presenting the indicator.

BC.280 When PSAB sets future standards for specific assets or liabilities by using the principles in an IPSAS, the Board may need to provide additional guidance as to the impact on the net financial assets or net financial liabilities indicator.

Requirement to present the budget

BC.281 PSAB believes that all public sector entities should present their approved budget on the statement of operations because the comparison of actual financial statement results with those budgeted is a fundamental component of the financial accountability cycle in the public sector. Actual-to-budget comparison provided in the financial statements forms the basis for closing the accountability cycle. It is crucial for users to be able to compare what actually happened with what was planned or budgeted.

BC.282 IPSAS 24, *Presentation of Budget Information in Financial Statements*, applies only to those entities that are required to or elect to make publicly available their approved budgets.

BC.283 PSAB does not expect this difference will affect future standard setting, as:

(a) the budget requirements in Section PS 1202 would be retained; and

(b) individual IPSAS, other than IPSAS 24, normally do not discuss the impact of items, transactions or other events on the budget.

Location of the presentation of the budget

BC.284 The IPSASB requires an entity to present a comparison of the budget amounts for which it is held publicly accountable and the actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSAS 1. On the other hand, PSAB requires the budget be presented on the existing financial statements (i.e., a column to the statement of operations). PSAB was of the view that the current practice of presenting the budget on the statement of operations provides the strongest public accountability.

BC.285 PSAB does not expect this difference will affect future standard setting, as:

(a) the budget requirements in Section PS 1202 would be retained; and

(b) individual IPSAS, other than IPSAS 24, normally do not discuss the impact of items, transactions or other events on the budget.

Presentation of multiple budgets

BC.286 The IPSASB requires that the comparison of budget and actual amounts presents the original and final budget amounts.

BC.287 PSAB believes that the approved original budget should be presented on the financial statements: 15

(a) It is the budget that was thoroughly considered and approved by the appropriate authority.

(b) It is the budget against which an entity is held accountable.

BC.288 PSAB is of the view that having more than one budget column on the statement of operations may complicate the actual-to-budget comparison and reduce the accountability provided by the comparison. The Board does not expect this difference will affect future standard setting, as:

(a) the budget requirements in Section PS 1202 would be retained; and

(b) individual IPSAS, other than IPSAS 24, normally do not discuss the impact of items, transactions or other events on the budget.

Explanation of material differences between the budget and actual amounts

BC.289 The IPSASB requires an explanation of material differences between the budget for which the entity is held publicly accountable and the actual amounts in the notes unless such explanation is included in other public documents issued in conjunction with the financial statements. PSAB does not. PSAB does not expect this difference will affect future standard setting, as many entities have chosen to implement SORP-1, Financial Statement Discussion and Analysis, which encourages entities to include a discussion of variances between actual and budget amounts. Some respondents to the various documents for comment encouraged PSAB to consider making SORP-1 a requirement. In the future, PSAB may do so but only after following its due process.

Restating actuals versus budget figures

BC.290 If the budget and the actuals are not prepared in the same manner, PSAB requires a restatement of the budget figures. However, the IPSASB requires the actual numbers be restated in accordance with how the budget is prepared. PSAB believes that since the actual amounts are audited, users can have some level of comfort over these numbers. As a result, PSAB believes that it is more appropriate for the budget to be restated. The Board does not expect this difference will affect future standard setting, as:

(a) the budget requirements in Section PS 1202 will be retained; and

(b) individual IPSAS, other than IPSAS 24, normally do not discuss the impact of items, transactions or other events on the budget.

Disclosing non-compliance with financial authorities

BC.291 PSAB requires that financial statements disclose when an entity's revenue, borrowing, investing, expense and expenditure are not within the limits authorized by its financial authorities. The IPSASB does not. It is not expected that this difference will have an impact on setting future standards. The disclosure requirements in Section PS 1202 would be retained.

Footnotes

1. The Joint Working Group comprised selected PSAB members and deputy ministers of finance. It suggested the superseded conceptual framework in the PSA Handbook required review, with a focus on reporting the financial performance of public sector entities.

2. Paragraph 10.24 of the Conceptual Framework provides criteria to consider when determining if supplemental information to that required by the PSA Handbook should be included in an entity's financial statements.

3. Source: Paragraph 43 of the Basis for Conclusions accompanying Section PS 3430.

4. SORP-4, Indicators of Financial Condition, provides guidance to public sector entities that choose to report supplementary information on financial condition. Reporting supplementary information on financial condition is not mandatory.

5. This reflects the characteristic "nature and use of public resources" identified in Chapter 2 of the Conceptual Framework.

6. The section "Former statement of change in net debt or net financial assets" explains PSAB's decision to provide entities the option to present the reasons for the change in net financial assets or net financial liabilities if they wish to do so.

7. The options PSAB considered included reflecting certain changes in financial position in: (a) a statement of changes in net assets or net liabilities; (b) the statement of operations below surplus or deficit; or (c) the statement of financial position, outside of assets and liabilities.

8. Purchased intangibles, purchased natural resources and purchased Crown lands can be recognized if they meet the asset definition and the general recognition criteria.

9. According to CONTRIBUTIONS – REVENUE RECOGNITIONS, paragraph PS 4210.02(b)(ii), "An endowment contribution is a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from time to time."

10. The review of the accounting for endowment contributions of a random sample of public sector entities revealed there is much diversity. Such entities recognize endowment receipts either as financial or non-financial assets. Such entities recognize the "credit entry" as either a liability, revenue or direct recognition to net assets or net liabilities.

11. Paragraph PS 3400.27, states: "An unfulfilled performance obligation for a public sector entity has all three of the essential characteristics of a liability."

12. Statement of Recommended Practice (SORP) 1, Financial Statement Discussion and Analysis, provides guidance in relation to preparing an FSD&A. Preparing an FSD&A is not mandatory.

13. In 1981, the Canadian Institute of Chartered Accountants established PSAAC after consulting with federal, provincial and territorial governments who saw the need for a comparable and consistent approach to financial reporting by Canadian governments. In 1993, PSAAC was renamed Public Sector Accounting and Auditing Board (PSAAB), a standard-setting board. In 1999, PSAAB was renamed PSAB when responsibility for public sector auditing and assurance standards was transferred to the Auditing and Assurance Standards Board.

14. Refer to Chapter 3, Chapter 4 and the Glossary of the Conceptual Framework for further information on "financial performance."

15. There are exceptions to this requirement.