

## SECTION PS 3320 contingent assets

### Basis for Conclusions

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#### PURPOSE AND SCOPE

- .01 This Section:
- (a) defines and establishes disclosure standards on contingent assets; but
  - (b) does not include disclosure standards for specific types of contingent assets.
- .02 It may be useful to read this Section in conjunction with ASSETS, Section PS 3210, and CONTRACTUAL RIGHTS, Section PS 3380.

#### DEFINITION

- .03 **Contingent assets** are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.

#### CHARACTERISTICS OF CONTINGENT ASSETS

- .04 Contingent assets are distinct from assets because they are characterized by the uncertainty related to the existence of an asset at the financial statement date.
- .05 Contingent assets usually arise from unplanned or unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.
- .06 Contingent assets have two basic characteristics:
- (a) An existing condition or situation that is unresolved at the financial statement date.
  - (b) An expected future event that will resolve the uncertainty as to whether an asset exists.
- .07 The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

#### Existing condition or situation

- .08 For a contingent asset to be present, there usually is an unplanned or unexpected event leading to an existing condition or situation where the evidence indicates that a public sector entity may have an asset. For example, a public sector entity may have incurred an unexpected loss and there is sufficient evidence for potential recovery. The potential for recovery constitutes the existing condition or situation giving rise to a possible asset. It is a possible asset because of the uncertainty around recovery and it is only a future event that will confirm whether an asset exists.
- .09 Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date. Further, elected or public sector entity officials may announce public sector

entity intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no contingent asset. However, there may be a subsequent event.

#### **Confirming future event**

- .10 For a contingent asset to exist, there must also be an expected confirming future event that will resolve the uncertainty. The expected confirming future event provides additional information as to whether a public sector entity had an asset at the financial statement date. The confirming future event does not create an asset – it only proves or disproves its existence at the financial statement date.
- .11 The future confirming event cannot be wholly within the control of the public sector entity. For example, when a public sector entity is involved in a lawsuit, the future confirming event (the resolution of the lawsuit) is not within the control of that public sector entity.

#### **EXISTENCE UNCERTAINTY**

- .12 The determination of whether an asset exists at the financial statement date depends on an assessment of the probability of a future event occurring, or not occurring, confirming that an asset existed at the financial statement date. This probability can be expressed by the following:
  - (a) likely — the probability of the occurrence (or non-occurrence) of the future event(s) is high;
  - (b) unlikely — the probability of the occurrence (or non-occurrence) of the future event(s) is slight; and
  - (c) not determinable — the probability of the occurrence (or non-occurrence) of the future event(s) cannot be determined.
- .13 Assessing the likelihood of the future confirming event occurring and estimating its financial effects are matters for judgment by those responsible for preparing the financial statements. In identifying contingent assets and determining their amount, consideration would be given to all information available prior to completion of the financial statements, supplemented by experience in similar transactions and, in some cases, reports from independent experts.

#### **DISCLOSURE**

- .14 In assessing the public sector entity's financial position and results, it is important to understand its contingent assets. As a minimum, knowledge of the existence, nature and extent of contingent assets is warranted because they indicate the economic resources that may be available to the public sector entity. The relevance of such information to the decision-making process arguably outweighs the inherent uncertainty.
- .15 Disclosure of the nature of contingent assets includes a description of the circumstances giving rise to the uncertainty and information about the anticipated resolution of the uncertainty.
- .16 When a reasonable estimate can be made, disclosure of the extent of a contingent asset includes the public sector entity's best estimate and a range of possible amounts, unless it would have an adverse effect on the outcome. A financial statement user may not find disclosure of a broad range of amounts, which may extend from the minimum possible amount to the maximum possible amount, as useful as a narrower range that comprises what is reasonable.
- .17 When an estimate of the amount has been made, the basis for that estimate would be disclosed. It may also be useful to disclose the significant assumptions underlying the contingent asset that are subject to change and the impact that a change would have on the estimate. Disclosure of the extent could also be accomplished by disclosing the minimum likely amount of the contingent asset, accompanied by an explanation of the significant factors that could affect the resolution of the contingent asset and the prospects that any contingent asset will be more than the minimum likely amount.
- .18 The level of disclosure also considers the sensitivity of the information.
- .19 *The existence of a contingent asset at the date of the financial statements should be disclosed in notes to the financial statements when the occurrence of the confirming future event is likely. [APRIL 2017]*
- .20 *The following information should be disclosed in notes or schedules relative to a contingent asset:*
  - (a) *the nature;*
  - (b) *the extent, except in those cases where the extent cannot be measured or disclosure of the extent would have an adverse effect on the outcome;*
  - (c) *the reason(s) for any non-disclosure of the extent; and*
  - (d) *when an estimate of the amount has been made, the basis for that estimate. [APRIL 2017]*

#### **TRANSITIONAL PROVISIONS**

- .21 This Section applies to fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.

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