Public Private Partnerships — Basis for Conclusions

Section PS 3160

FOREWORD

In April 2021, the Public Sector Accounting Board (PSAB) released the new standard, PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160, in the CPA Canada Public Sector Accounting (PSA) Handbook and Statements of Recommended Practices (other guidance). PSAB has approved for publication the contents of this document setting out its rationale for making these improvements.

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

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

April 2021

TABLE OF CONTENTS	**Paragraph**

BACKGROUND

1. Public private partnerships are an alternative finance and procurement model available to public sector entities to build, acquire or better infrastructure. While public private partnerships are an accepted method to deliver infrastructure projects, stakeholders identified the need for an accounting standard that considers the distinct aspects of the public private partnership procurement model considered to be insufficiently addressed in the existing CPA Canada Public Sector (PSA) Handbook.
2. Before Section PS 3160 was issued, there was no specific guidance addressing the accounting specifically related to public private partnerships. TANGIBLE CAPITAL ASSETS, Section PS 3150, establishes requirements for tangible capital

assets acquired, constructed, improved or refurbished by public sector entities. PUBLIC SECTOR GUIDELINE (PSG) 2, Leased Tangible Capital Assets, deals with the conveyance of a right to use a tangible capital asset by a lessee. Both pronouncements have limited applicability in relation to some forms of public private partnership arrangements.

3. Sufficient guidance exists within the PSA Handbook for certain delivery models of public private partnerships. However, existing guidance in Section PS 3150 does not address public private partnerships where the private sector partner finances the construction of infrastructure subsequent to it being ready for use and manages the infrastructure it has constructed.

4. Without a standard on a specific topic, preparers and auditors must rely on GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, which requires the use of professional judgment when selecting an appropriate accounting policy. Accounting policies developed in this manner are expected to be consistent with FINANCIAL STATEMENT CONCEPTS, Section PS 1000, INTERESTS IN PARTNERSHIPS, Section PS 3060, LIABILITIES, Section PS 3200, ASSETS, Section PS 3210, and FINANCIAL INSTRUMENTS, Section PS 3450. However, establishing guidance specific to public private partnerships with both a financing an operating and/or maintenance component for the private sector partner will reduce diversity in practice among public sector entities when recognizing and measuring infrastructure procured through a public private partnership, and accounting for the associated credit entry.

5. PSAB concluded that developing an accounting standard for certain public private partnerships to address the identified gap in the PSA Handbook would benefit stakeholders.

PURPOSE AND SCOPE

6. Section PS 3160 applies to public private infrastructure procured by a public sector entity using a private sector partner that is obligated to design, build, acquire, or better infrastructure; finance the transaction past the point where the infrastructure is ready for use; and operate and/or maintain the infrastructure.

Limited scope

7. Several respondents questioned whether the proposed scope in the Statement of Principles and Exposure Draft was too narrow. Some asked whether all three criteria identifying the type of public private partnerships within the scope need to be met for the standard to apply. PSAB deliberated expanding the scope. It decided to keep the existing scope but make it clearer to ensure that in cases where the public private partnership standard would not apply, stakeholders understood where to find the appropriate accounting guidance.

8. By requiring that all three criteria be met, certain types of arrangements may be excluded from the standard's scope. PSAB thinks that there is sufficient guidance in the PSA Handbook to address excluded types of arrangements.

9. To enhance clarity, PSAB included a decision tree in Appendix A to the standard, illustrating various forms of arrangements. Stakeholders are directed to the appropriate guidance for transactions outside of the standard's scope.

10. As an example, for arrangements where a private sector partner operates and/or maintains public sector infrastructure (i.e., service contract only where there is no delivery of new infrastructure asset or betterment of existing infrastructure), PSAB concluded that the general guidance provided in Section PS 1000, on expenses and liabilities along with the disclosure requirements set out in CONTRACTUAL RIGHTS, Section PS 3380, and CONTRACTUAL OBLIGATIONS, Section PS 3390, are sufficient to account for such contracts.

11. As another example, for design-build-operate-maintain arrangements, all the scope criteria would be met except for the financing requirement on the part of the private sector partner. In such a scenario, the public sector entity should use existing guidance in Section PS 3150 to account for the infrastructure. This transaction would represent traditional procurement. For the service contract, the public sector entity would use the general financial statement concepts and disclosure standards cited in paragraph 10.

12. One of the standard's key objectives is to help stakeholders evaluate whether the public sector entity controls infrastructure – and should, therefore, recognize an asset – when the private sector partner operates the infrastructure and makes decisions on relevant activities.

13. PSAB developed guidance designed to support stakeholders in evaluating this. For transactions outside the standard's scope, it is reasonable for stakeholders to use the general asset guidance provided in Section PS 3210.

14. Several respondents to the Exposure Draft raised concerns regarding the exclusion of all forms of leasing arrangements from the standard's scope. The proposals directed stakeholders to PSG-2 for leasing arrangements. PSG-2 uses a risk-and-benefit approach to recognition, while Section PS 3160 employs a control approach. PSG-2 also provides discount rate guidance based on a public sector entity's borrowing rate, rather than on the implicit contract rate used in Section PS 3160. Respondents noted that excluding leases from the scope of Section PS 3160 may encourage the financing component of infrastructure acquired via public private partnership agreements to be structured in the form of a capital lease, while functionally satisfying the criteria for recognition under Section PS 3160.

15. PSAB discussed stakeholder feedback regarding the exclusion of lease arrangements. It agreed that the legal structure of financial payments should not determine its accounting treatment when the criteria for recognition per Section PS 3160 are satisfied. In response to stakeholder feedback, the Board amended the standard to include leased infrastructure, which satisfies the criteria for recognition of an infrastructure asset as part of a public private partnership.

Financing requirement

16. Respondents to the Statement of Principles and Exposure Draft challenged whether the timing of the transfer of consideration to the private sector partner (financing) is a relevant criterion in determining the scope of a public private partnership standard. For example, tangible capital assets can be financed over an extended period of time and they are within the scope of Section PS 3150.

17. In response, PSAB further clarified the finance criterion to state that the private sector partner is required to finance the transaction past the point where the infrastructure is ready for use. A key feature of public private partnerships is the transfer of risk from the public sector entity to the private sector partner. For the private sector partner to be vested, it must risk its own capital. In public private partnership arrangements, the level of risk transfer to the private sector can be significant, giving rise to two key accounting issues:

    (a) it may appear that the private sector partner controls public infrastructure, when in substance the public sector entity may be in control; and

    (b) the initial measurement of the asset and liability may be difficult, as the compensation to the private sector partner may commingle payments for assets with payments for expenses.

18. By including the criterion for private sector financing, Section PS 3160 addresses transactions where guidance is needed in Canada.

19. Respondents to the Exposure Draft questioned whether the requirement to finance constructed infrastructure by a private sector partner beyond its ready-for-use date would include short-term or holdback payments. PSAB confirmed this criterion would not relate to financing that is short-term or incidental in nature (such as inspection-based holdbacks), and that existing guidance provided in Appendix A provided sufficient guidance to stakeholders. Professional judgment is still required to assess what is considered long-term financing for a given arrangement.

DEFINITIONS

20. Several respondents to the Exposure Draft requested the inclusion of a formal definition of "infrastructure" as being integral to applying the standard. PSAB decided against including a formal definition of "infrastructure" in the standard. While the term "infrastructure" currently refers to forms of tangible capital assets, public private partnerships may evolve to include items that would not be included within such a definition. However, the Board amended the standard to direct stakeholders to the description of "complex network systems" in Section PS 3150. The Board concluded the criteria already identified within the PSA Handbook, such as comprising a network of components and long useful lives, would assist stakeholders in the standard's application.

21. Respondents to the Exposure Draft questioned the inclusion of intangible infrastructure within the standard, raising concerns regarding application and scope implications for intangible assets that would be otherwise excluded from recognition under the existing PSA Handbook. Intangible infrastructure is included within the standard's scope only in instances where the intangible asset is permitted to be capitalized in accordance with the PSA Handbook, such as computer software. To clarify the intent of the standard regarding intangible infrastructure, Section PS 3160 restricts the recognition of intangible assets to those that are permitted in accordance with PURCHASED INTANGIBLES, PSG-8.

22. Respondents to the Exposure Draft requested additional clarity regarding the definition of "lifecycle costs" and the variability of their treatment based on a public sector entity's accounting policy. To clarify interpretation of the standard, PSAB removed references to "lifecycle costs" and used existing PSA Handbook concepts of operating and maintenance costs and betterments. The standard was further modified to include additional guidance on the treatment of these costs depending on a public sector entity's accounting policy with respect to tangible capital asset componentization.

CONTROL

23. Control is a key feature of Section PS 3160. Whether the public sector entity controls:

    (a) the purpose and use of the infrastructure;

    (b) access to its future economic benefits and risks; and

    (c) any significant residual interest of the infrastructure,

    determines if it should recognize the infrastructure constructed or acquired through a public private partnership as an asset. If it meets all three criteria for control, the infrastructure is recognized as an asset by the public sector entity.

24. This conclusion is consistent with the principles in Section PS 3210. Such control would be contractually agreed upon in the public private partnership arrangement. Also consistent with Section PS 3210, control over the infrastructure would not exist merely by virtue of a government's broad and sweeping powers to control an industry through regulation or legislation.

25. Two respondents to the Exposure Draft questioned the removal of control over pricing as a necessary component of controlling access to infrastructure, previously included in the Statement of Principles. While control over pricing remains an important factor that must be considered in determining if paragraph PS 3160.06(b) has been met, PSAB determined that if a public sector entity specifies the purpose and use, controls access and is exposed to a significant residual interest, these three criteria are sufficient to demonstrate control over the infrastructure asset.

26. The "residual interest" guidance is based on the requirement in Section PS 3210 that a public sector entity must be exposed to the risks associated with the economic resource to control that resource. Stakeholder comments to the Statement of Principles requested clarity on what constitutes "residual interest".

27. The standard contains factors to consider when determining if there is a significant residual interest that accrues to the public sector entity. These factors indicate that significant residual interest may come in the form of risks and benefits. Risks would include inheriting asset retirement obligations or remediation obligations for contaminated sites. Benefits would include the remaining service potential of the asset. Whether the residual interest is significant will remain a matter of professional judgment. Professional judgment would be informed by the amount of remaining service potential or the magnitude of an accrued obligation that the public sector entity must assume.

28. Respondents to the Exposure Draft requested additional clarity on whether the standard's scope included arrangements where the term of the public private partnership arrangement extends for the significant duration of the asset's useful life, known as "whole-of-life" arrangements. They noted that the requirement for control of significant residual interest by the public sector entity may result in the exclusion of such arrangements. PSAB reviewed stakeholder feedback and decided not to further amend the standard to explicitly include whole-of-life arrangements. The Board noted that the requirement to control "significant residual interest, if any" would include such arrangements.

INITIAL MEASUREMENT

29. Another key feature of the standard is the measurement guidance. Once it is determined that a public sector entity controls the infrastructure in the arrangement, there may be challenges with initial measurement of the infrastructure asset and liability.

30. Public private partnership arrangements can be material to the reporting entity. Financial statements users benefit when measurement guidance is consistent across Canada. Given these factors, PSAB took a more prescriptive approach to both the initial measurement guidance and the discount rate guidance.

Cost is equal to fair value of the asset

31. In developing this standard, PSAB concluded that historical cost is the most appropriate measurement attribute to record a newly acquired or built infrastructure asset or a betterment to an existing infrastructure asset. This conclusion is consistent with the principles in Section PS 3150. Cost would refer to the costs incurred by the public sector entity that are directly attributable to the acquisition, construction or betterment of the infrastructure.

32. A public private partnership is a market or "exchange" transaction in which the parties engage freely and are not compelled to act. The public sector entity is acquiring goods and services in the open marketplace. In choosing a private sector partner, the public sector entity should have clarity on the costs of the infrastructure being procured and on other aspects of the arrangement. In an exchange transaction, the cost to the public sector entity is considered the fair value of the asset and related services. Where the costs of the infrastructure asset are readily available from the public private partnership agreement and procurement process, then the public sector entity would record the infrastructure asset and liability at that value.

33. "Fair value" is defined in the Glossary of FINANCIAL INSTRUMENTS, Section PS 3450, as "the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act." Under private sector accounting in Canada, "fair value" could mean the value of an asset if it were sold on the open market or the value of an asset when considering the net future cash flows it will yield from being used in production. In most instances, public infrastructure is not created to be sold on the open market and is not used to generate future cash flows. Rather, infrastructure assets are held by public sector entities for their service capacity.

34. To ensure clarity on what value the asset should be recorded upon initial measurement, "fair value" is interpreted in paragraph PS 3160.30 as "the price a market participant would pay for an equivalent infrastructure asset with the same service potential and risk profile." Where capital costs of the infrastructure asset are determinable and verifiable through the agreement and procurement process, the costs directly attributable to the infrastructure (including premiums paid related to risk transfer) would be capitalized. This is consistent with Section PS 3150. The Exposure Draft proposed that where costs of acquiring or constructing infrastructure are readily available from the public private process and agreement, these amounts would be used to measure the asset cost. In discussion, the Board considered the need to assess the appropriateness of costs derived from an agreement for the purpose of initial measurement. The Board concluded that asset costs obtained from an agreement or procurement process would be appropriate when they are verifiable and agreed with the underlying transaction with a reasonable degree of precision. Accordingly, the standard was amended to require infrastructure costs obtained from the public private partnership procurement process or contractual arrangement, for the purpose of initial measurement of an infrastructure asset, to be both determinable and verifiable. For arrangements where costs are neither determinable nor verifiable, providing a clear description of fair value should assist stakeholders in applying estimation techniques upon initial measurement.

35. The standard provides guidance on how to estimate cost where it is necessary to do so. Judgment may be required to separate the predetermined service payments, as public private partnerships often commingle design, build, finance, operating, maintenance and the costs associated with the transfer of risks together into a single unitary payment.

36. In the Exposure Draft, the relative fair values of the asset and the service contract could be used to determine this information for accounting purposes when:

(a) the costs of the infrastructure asset are not readily determinable and verifiable from the public private partnership agreement and process; and

(b) the predetermined service payment is not separated into capital and operating portions.

37. Respondents to the Exposure Draft generally agreed that the relative fair value approach was appropriate for the allocation of two arrangement components with readily determinable fair values to a single unitary payment.

38. However, respondents noted that an alternative approach, based on residual value, had been used in the illustrative guidance for the proposed Section. They requested additional clarity on the appropriateness of this methodology. Per paragraph PS 3160.B30, the estimated fair value of a service contract component as a proportion of a total predetermined service payment was used to deduce the residual value of the remaining infrastructure asset component.

39. PSAB considered stakeholder feedback and agreed that when total arrangement cost and the estimated fair value of one arrangement component (either the infrastructure asset or the service component) are readily determinable, fair value of the remaining component would be equal to the remaining residual arrangement cost. Paragraph PS 3160.32 was amended accordingly to include the residual arrangement value approach.

Assets acquired with non-monetary compensation

40. While several respondents agreed with using the measurement attribute of cost in the Statement of Principles, they also raised a concern. They indicated that the term "cost" could be misconstrued in situations where the public sector entity gives up non-financial consideration to acquire infrastructure as part of a public private partnership arrangement.

41. For example, land could be transferred to the private sector partner as compensation for the arrangement. In the public sector, non-purchased land, such as inherited Crown land, is not recognized in public sector financial statements, 1 and may have no carrying value or nominal value in the financial statements. However, the land may have a substantial market value.

42. The standard is clear that initial measurement of the infrastructure asset is at cost for the public sector entity. In an exchange transaction, this amount represents and equals the fair value of the infrastructure asset (or the relative fair value of the asset and the service contract). The corresponding liability is measured at the same value as the asset (less consideration paid). PSAB believes this guidance is sufficient to consistently measure public private partnership transactions regardless of the type of compensation provided to the private sector partner.

Assets acquired with the user-pay model

43. PSAB also considered the fact that in some public private partnerships, the private sector partner is compensated using the user-pay model (e.g., the right to charge tolls). The cost of the infrastructure asset delivered to the public sector may not be equal to the fair value of the fees and tolls the private sector partner may collect through operating the infrastructure. For example, if the government compensates the private sector partner by granting the right to charge tolls in exchange for a newly constructed public highway that the private sector partner will operate and maintain for 30 years, then the fair value of the right to charge tolls would be compensating the private sector partner for all of the following:

(a) the capital costs of the new highway;

(b) the value of the operating and maintenance contract; and

(c) the risk transfer and return on capital.

44. The standard is clear that initial measurement of the infrastructure asset and corresponding liability is at the historical cost of the asset, represents and equals its fair value. Fair value of the rights granted to the private sector partner would not be used to measure the infrastructure asset.

45. Under the standard, an infrastructure asset is initially measured at its cost, which at inception represents and equals its fair value, whether the related liability is a financial liability, a performance obligation or both. Stakeholder feedback agreed that once the public sector entity records an asset, it must also record a liability equal to that asset upon initial measurement, otherwise an upfront gain would result. Thus, the initial measurement guidance is driven by one measurement attribute: the asset's historical cost, which is considered equivalent to its fair value on initial recognition. Whether the public sector entity pays for the asset with cash over time, with non-monetary assets or through the user-pay model, the initial measurement attribute in the standard remains the same.

Implicit contract rate versus entity borrowing rate

46. In developing this standard, PSAB carefully considered stakeholders' arguments regarding initial measurement. Some stakeholders believed that the asset cost should be derived by discounting the predetermined service payments related to the infrastructure asset at the public sector entity's own borrowing rate. This value may, under certain circumstances, be inconsistent with the fair value of the asset, upon initial measurement.

47. PSAB did not consider this view as a preferred approach to initial measurement. As this is an exchange transaction, the value the private sector partner delivers should be equal to the value the public sector entity pays.

48. PSAB did not view obligations under public private partnerships as similar to other long-term obligations, where an entity-specific view is taken to measuring liabilities. For example, if the public sector entity is a government with a poor credit rating, should a higher discount rate be used to reflect a lower asset value? If the timing of most cash flows is well into

the future as opposed to earlier in the arrangement, should the timing of cash flows change the value of the asset being recorded? The Board did not think that a public sector entity's average or historical borrowing rate should drive the initial measurement of the infrastructure asset.

49. Stakeholders in favour of using the entity's cost of borrowing to initially measure the cost of the infrastructure often cite existing PSA Handbook requirements as precedents. PSG-2 and the measurement of certain long-term liabilities (such as RETIREMENT BENEFITS, paragraph PS 3250.44) in the PSA Handbook are examples where the public sector entity's borrowing rate is explicitly referred to in the standard or has become a practice across Canada.

50. With the notable exception of Section PS 3150, there may be more similarities between public private partnerships and leases than with any other standard in the PSA Handbook. PSG-2 refers to using the borrowing rate to discount minimum lease payments. However, the lease guidance states that while the borrowing rate should be used to discount the minimum lease payments, the value that is capitalized cannot exceed the fair value of the asset. Indeed, fair value upon initial measurement (which should be equivalent to cost at that date) is the objective in that Guideline.

51. PSAB agreed that using the entity's borrowing rate as the discount rate would not reflect the risk transfer that is integral to public private partnerships. As the transaction is often financed by the private sector partner (at least in part) at a different rate than the public sector entity borrowing rate, the public should be aware of the borrowing rate actually being charged to the public sector entity.

52. PSAB considered public private partnership arrangements where non-monetary assets (i.e., land was given) or the user-pay model was used to compensate the private sector partner. It is not clear how proponents of this alternative view would measure the asset when there are no cash flows to discount. The Board's approach to measurement focuses on estimating the asset's fair value in the absence of determinable and verifiable infrastructure costs (per paragraph PS 3160.30). This approach will provide consistent guidance, regardless of the type of compensation made to the private sector partner.

53. PSAB chose to prescribe the discount rate implicit in the contract, rather than the weighted average cost of capital for an arrangement, as the appropriate discount rate for a public private partnership project. These rates should be similar to each other in practice. The discount rate implicit in the contract simply asks preparers to derive a rate based on the fair value of the asset and the capital portion of the predetermined service payments. This will be an average rate that can be applied consistently for the life of the arrangement.

54. PSAB considered the possibility that there may be some public private partnership arrangements where the private sector partner provides a distinct service for the public sector. In this case, the various components of the transaction are not transparent and little market information is available. In such a case where the implicit rate is not determinable, the Board believes that another rate appropriate to the circumstances would be appropriate in measuring the cost of the infrastructure. The Board believes such circumstances would be rare, and as such the standard was amended to include additional disclosure requirements justifying the use of a non-prescribed discount rate.

SUBSEQUENT MEASUREMENT

55. Subsequent measurement of an infrastructure asset involves accounting for its amortization and impairment. The public sector entity would amortize the historical cost of the infrastructure asset over the useful life of the asset as set out in Section PS 3150. The standard is clear that the useful life of the asset is the relevant period of amortization – not the term of the public private partnership agreement. However, the terms of the public private partnership arrangement with respect to betterments or ongoing maintenance may be relevant to determining the useful life of the asset.

56. While stakeholders may have set policies on how long particular types of tangible capital assets should last (e.g., buildings are amortized over 40 years), the standard suggests that stakeholders consider how the public private partnership delivery model may change the estimated useful life of the infrastructure asset. For example, the infrastructure may have been built with long-lasting materials, or the handover provisions compel the private sector partner to perform significant upgrades toward the end of the agreement. As such terms may affect the assessment of the useful life or service capacity of an asset, they may also affect the assessment of a significant residual interest when determining control as part of the recognition criteria.

Accounting for betterments

57. Some stakeholders requested additional guidance on how to account for betterments, for example, when the public private partnership arrangement includes a payment for a building's roof to be replaced, as necessary. Whether such a replacement is a betterment or simply a repair may depend on the extent to which the entity has adopted a policy to record and account for each component of the acquired or constructed infrastructure asset separately.

58. Further, there are accounting issues with when such costs should be recorded because payments for roof replacement (or other similar expenses) may be spread out unevenly through the life of the public private partnership.

59. PSAB concluded that defining betterment and providing guidance on how to account for a betterment is not within the scope of the public private partnership project. Section PS 3150 provides sufficient guidance and the Board's objective is to be consistent with the guidance already provided in the PSA Handbook. The general principle is to recognize the betterment when the asset's service capacity has been improved, not when the scheduled payment is made.

60. Section PS 3150 provides some guidance for those public sector entities that decide to record and account for each infrastructure component as a separate asset. As this approach uses different useful lives for each component, infrastructure improvements are captured on an ongoing basis.

Operating and maintenance expenses

61. Paragraph PS 3160.46 states: "Operating and maintenance costs do not extend the service capacity of the asset. Therefore, such costs are expensed in a rational and systematic manner that best corresponds to the benefit received from the services being provided over the term of the service contract."

62. Typically, operating and maintenance costs would be expensed as they are incurred. Some public private partnership arrangements may structure lump-sum payments related to activities that do not qualify as betterments. To complicate things further, the payment of these costs may not be linked to when the actual scheduled operating and/or maintenance activities are incurred.

63. The public sector entity has effectively assigned responsibility for maintenance activities to the private sector partner and may not be aware of when these costs are incurred. As such, the standard provides guidance that these costs be recognized over the life of the service contract as this best allocates maintenance costs to the period when the public sector entity receives the benefit. It would not be consistent with the ongoing nature of maintenance activities to recognize a lump-sum expense in the period where the lump-sum payment is made.

PRESENTATION AND DISCLOSURE

64. PSAB designed presentation and disclosure guidance for the standard to balance the need to provide financial statements users with sufficient information about the public private partnership to help them make informed decisions, with the intent that the disclosures not be burdensome.

65. Several respondents to the Exposure Draft requested additional disclosure requirements quantifying metrics for public private partnership arrangements compared to traditional procurement models. PSAB considered stakeholder feedback, noting that the standard's scope pertains only to the subset of public private partnership arrangements for which sufficient guidance did not already exist in the PSA Handbook (i.e., arrangements using a private sector partner that is obligated to design, build, acquire, or better; finance; and operate and/or maintain the infrastructure). As such, the Board determined that disclosures inclusive of all forms of public private partnership arrangements were beyond the standard's intended scope.

66. To minimize the potential overlap of Section PS 3160 requirements with those of other standards, the Exposure Draft guidance excluded references to other existing standards that may include additional relevant disclosure requirements for a public private partnership arrangement. Respondents to the Exposure Draft noted that while applicable disclosure guidance may exist elsewhere in the PSA Handbook, stakeholders would benefit from additional direction to that disclosure. In response to stakeholder feedback, PSAB amended the standard to include additional guidance from the existing PSA Handbook that may be required for a public private partnership arrangement.

TRANSITIONAL PROVISIONS

67. The standard applies to fiscal periods beginning on or after April 1, 2023. In responding to stakeholder feedback to the Exposure Draft and recognizing the additional complexities resulting from COVID-19, PSAB decided to defer the application date of the standard one year from the date proposed in the Exposure Draft, April 1, 2022. When an accounting standard is adopted for the first time, and a standard does not specify a required approach, ACCOUNTING CHANGES, paragraph PS 2120.13, provides for a choice of retroactive or prospective application.

68. Several respondents to the Exposure Draft requested consideration for a modified retroactive transitional provision, which would allow for assumptions and discount rates used to be based on current information at the beginning of the fiscal year in which this standard is applied, in place of historical assumptions. Respondents noted that due to the long-term nature of public private partnership arrangements, access to the historic information necessary to derive fair value for an asset may be challenging for preparers. PSAB noted that the practical expedients afforded by modified retroactive application in relation to using current assumptions would be of limited benefit to financial statement preparers as compared to retroactive application. In the absence of modifications (per paragraph PS 3160.63), deriving an implicit contract discount rate, as required by the standard, would be based on the executed arrangement (per paragraph 3160.58). Where a public sector entity is unable to determine a reasonable estimate of an infrastructure asset's value as required under retroactive transition, the Board believes sufficient prescriptive discount rate guidance is provided within the existing standard to direct users (per paragraphs PS 3160.56-.57).

69. Respondents to the Exposure Draft also requested additional clarity regarding transition application of the standard, noting that the guidance was subject to interpretation with respect to treatment of arrangements executed prior to and outstanding as at the application date of April 1, 2023. To address stakeholder concerns, PSAB provided additional guidance regarding the types of arrangements that would require adjustment at the effective date.

OTHER ISSUES

70. Respondents to the Statement of Principles and the Exposure Draft asked PSAB to enhance the standard by including additional illustrative examples or modifying those considered inappropriate. Respondents also provided other suggestions aimed at clarifying the guidance. The Board considered all these recommendations and amended the examples and guidance where these suggestions improved their clarity.

Footnotes

1. FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.57.