SECTION PS 3200 liabilities

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving the 2024-2025 Annual Improvements to Public Sector Accounting Standards.

.23 The obligating transaction or other event arising from exchange agreements or contracts usually occurs at the point of exchange. Once title to the good is assumed by an entity, that entity government is obligated to settle. [Former paragraph PS 3200.23, amended by the Conceptual Framework, retained in Archived Pronouncements.]

…

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving the new CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING.

.01 This Section:

(a) provides guidance for applying the definition of liabilities set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general recognition and disclosure standards for liabilities; but

.04 Liabilities arise from many types of obligations. Obligations result in a government being bound or committed to a particular course of action. They can arise from:

(a) agreements or contracts, including situations where only one party has fulfilled its obligation or where both parties have partially fulfilled their obligations;

(b) another government's legislation (for example, environmental legislation of one level of government could place legal obligations on another to prevent, abate or clean up environmental damage);

(c) a government's own legislation (for example, legislation may require the government to make transfers to organizations and individuals that meet certain criteria set out in that legislation);

(d) constructive obligations (that is, those that can be inferred from the facts in a particular situation); and

(e) equitable obligations (that is, those that are based on ethical or moral considerations).

.05 **Liabilities** are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. Liabilities have three essential characteristics:

(a) they embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation;

(b) the duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and

(c) the transactions or events obligating the government have already occurred.

.06 Obligations are not liabilities unless they meet the three characteristics of liabilities.

Discretion

.07 Discretion is the ability to make individual choices, judgments or decisions. Decisions such as budgeting for purchases or transfers and future program expenditures are not present obligations. In these circumstances a government is not bound to a particular course of action, as the government has realistic alternatives to change or avoid the obligation through its own actions.

.08 Having little or no discretion means that a government has no realistic alternative but to settle the obligation. The obligation does not depend on future actions of the government or other transactions or events. The government has given up its freedom to make further choices, judgments and decisions related to the obligation.

.09 For constructive and equitable obligations, determining when a government has little or no discretion to avoid the obligation can be a matter of professional judgment. In assessing when a government may have lost its discretion to make decisions and judgments, one would consider whether a government has created a valid expectation among others and, as a result, has no realistic alternative but to settle its obligation.

.10 For these types of obligations, a government has little or no discretion when there is a preponderance of evidence that:

(a) the government acknowledges and indicates it will act upon its decision to accept responsibility for the obligation; and

(b) the government has sufficiently communicated its decision to the affected parties.

.11 Intentions and individual items of evidence on their own may not be sufficient for determining whether a government has little or no discretion. However, when taken together, there may be a preponderance of evidence indicating that it has. Each circumstance needs to be judged individually given the available information.

.12 Evidence that a government has acknowledged and will act upon its decision to accept responsibility for the obligation can include, but is not limited to, consideration of the following:

(a) past practices;

(b) established policies;

(c) cabinet minutes, orders-in-council, ministerial orders;

(d) approved plans;

(e) ministerial letters; and

(f) approval of legislation at various stages, such as first, second or third reading.

.13 If those affected are unaware of the government making its decision, no obligation can exist; the decision must be communicated to the parties affected. Communication to affected parties needs to be sufficient so that it creates a valid expectation among others resulting in a government not being able to withdraw from the obligation and having no realistic alternative but to settle the obligation.

.14 Evidence that a government has sufficiently communicated its decision to affected parties could include, but is not limited to, the following:

(a) an announcement of the amount the government is providing;

(b) identification of the individuals, organizations or groups affected by the decision; and

(c) an announcement of the time frame for implementing the decision.

.15 When taken together, a government's decision and communication of that decision can raise a valid expectation among others that it will accept certain responsibilities and, as a result, the government has little or no discretion to avoid the obligation and cannot realistically withdraw from it.

.16 There may be situations where a government is contemplating a particular program and evidence of the program may be found in approved plans or other similar documents. However, without sufficient evidence that the government has accepted responsibility for and communicated its decision, a person may be acting on that information to his or her own detriment.

.17 Not all established patterns of past practice or policy decisions lead to a loss of discretion. There are numerous examples where a government, in the past, has enhanced pension and other similar benefits to employees. However, more recently, governments have been reducing or eliminating those benefits, so in this case past practice is not sufficient to indicate that a government has little or no discretion to avoid the obligation.

Sacrifice of economic benefits

.18 Sacrificing economic benefits embodies a duty or responsibility to others to a future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand.

.19 The obligation to sacrifice economic benefits must be to a third party. It is necessary that the entity or individual exist at the financial statement date. It is not necessary, however, for the government to know the specific identity of the party or parties involved, as the obligation may be to the public at large or to a specific group of recipients.

.20 Some obligations to sacrifice economic benefits may be shared, as two or more governments may be jointly and severally liable. Most obligations bind a single government, and those that bind two or more governments are commonly ranked rather than shared. For example, a primary debtor and a guarantor may both be obligated for a debt, but they would not have the same obligation — the guarantor must sacrifice economic benefits only if the primary debtor defaults.

.21 The timing of the sacrifice of economic benefits in the future must be specified. An obligation to sacrifice economic benefit to others requires settlement at a specified or determinable date, such as within 30 days, on occurrence of a specified event such as those related to cost-sharing agreements, or on demand, such as with certain bank loans.

Past transactions and events

.22 It is the occurrence of a past obligating transaction or event on or before the financial statement date that distinguishes a present obligation to sacrifice economic benefits from a future obligation.

.23 The obligating transaction or event arising from exchange agreements or contracts usually occurs at the point of exchange. Once title to the good is assumed by a government, that government is obligated to settle.

.24 The actions of others, such as meeting eligibility criteria, often determine when an obligating transaction or event occurs in non-exchange agreements and contracts. Shared cost agreements are an example where the obligating transaction or event occurs when the recipient incurs eligible expenditures.

.25 The existence of another government's legislation on its own is not an obligating transaction or event. Environmental legislation, for example, may establish basic rules that, if not complied with, can result in a present obligation. However, normally it is the occurrence of environmental damage that is the obligating transaction or event.

.26 The existence of a government's own legislation containing details of the government's policy in relation to a particular program is not an obligating transaction or event:

(a) for programs such as entitlements until recipients meet the eligibility criteria;

(b) for programs that provide relief assistance to natural disaster victims until such a disaster occurs.

.27 Legislation having retroactive application cannot create a past obligating transaction or event. Any obligations related to such legislation would be accounted for in the current period, not in the period of the effective date of the legislation.

DISCLOSURE

.28 An obligation may meet the definition of a liability; however, it is not capable of being recognized in financial statements because a reasonable estimate of the amount involved cannot be made.

.29 For unrecognized liabilities, disclosing the nature of the liability provides information about the potential effect on the government's financial statements when the liability becomes measurable.

APPENDIX

DECISION TREE — OBLIGATIONS