SECTION PS 3041
portfolio investments

Basis for Conclusions

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PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report portfolio investments in government financial statements. 1 This Section does not deal with accounting for derivatives. [Former footnote 1 of paragraph PS 3041.01 amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]

DEFINITIONS

.02 The following definitions have been adopted for the purposes of this Section:

(a) **Portfolio investments** are investments in organizations that do not form part of the government reporting entity. Such investments are normally in equity instruments or debt instruments issued by the investee. Portfolio investments do not include:

(i) investments in government business enterprises, as defined in GOVERNMENT REPORTING ENTITY, Section PS 1300; or

(ii) loans receivable, as defined in LOANS RECEIVABLE, Section PS 3050.

(b) **Amortized cost** is the amount at which a financial instrument asset or a financial instrument liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

(c) The **effective interest method** is a method of calculating the amortized cost of a financial instrument asset or financial instrument liability (or a group of financial instrument assets or financial instrument liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument asset or financial instrument liability (see FINANCIAL INSTRUMENTS, paragraphs PS 3450.A41-.A45).

[Former paragraphs PS 3041.02(b)-(c), amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

ACCOUNTING

.03 Unless a portfolio investment contains significant concessionary terms, it is recognized and measured in accordance with FINANCIAL INSTRUMENTS, Section PS 3450. Portfolio investments with significant concessionary terms are initially measured in accordance with paragraphs PS 3041.17-.26 and are categorized and subsequently accounted for in accordance with Section PS 3450.

.04 For fixed term securities, any discount or premium arising on purchase is amortized over the period to maturity. As a result of the amortization, earnings from the investment would reflect a yield based on purchase costs, not on coupon rates, and the carrying value of the investment would be adjusted systematically, during the period it is held, toward the amount expected to be realized at maturity or an earlier call date.

.05 When a government does not control the organization that it has invested in, as is the case when it acquires an equity instrument that is a portfolio investment, it is inappropriate for the government to include any portion of the undistributed income of the investee in the operating results of the government. Dividends received in excess of the government's pro rata share of post-acquisition income are accounted for as a reduction of the cost of the investment. Earnings from portfolio investments are recognized only to the extent received or receivable.

Portfolio investments held by sinking funds

.06 Portfolio investments held by sinking funds should be accounted for in accordance with paragraphs PS 3041.03-.26. However, the presentation and disclosure standards in paragraphs PS 3041.27-.33 would not apply to portfolio investments held in externally restricted sinking funds. Presentation and disclosure requirements relating to externally restricted sinking funds are outlined in LONG-TERM DEBT, Section PS 3230. When a sinking fund is not externally restricted, in addition to the requirements within this Section, a government may disclose information about its designated assets as outlined in RESTRICTED ASSETS AND REVENUES, Section PS 3100.

Loss in value of a portfolio investment

.07 *When there has been a loss in value of a portfolio investment that is other than a temporary decline, the investment should be written down to recognize the loss. The write-down should be included in the statement of operations. In the case of an item in the fair value category, a reversal of any net remeasurements should be reported in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.* [APRIL 2026] [Former paragraph PS 3041.07, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.08 *A write-down of a portfolio investment to reflect a loss in value should not be reversed if there is a subsequent increase in value.* [MARCH 1999]

.09 A loss in value of a portfolio investment that is other than a temporary decline occurs when the actual value of the investment to the government becomes lower than its cost or amortized cost, adjusted for any write-downs recorded in previous reporting periods, and the impairment is expected to remain for a prolonged period.

.10 A decline in market value may be only temporary in nature or may reflect conditions that are more persistent. Declines may be attributable to general market conditions that reflect prospects of the economy as a whole or prospects of a particular industry. Such declines may or may not indicate the likelihood of ultimate recovery of the cost or amortized cost of an investment. A decline in quoted market value below cost or amortized cost of an investment with a fixed maturity amount may be considered temporary unless it is anticipated that the investment will be disposed of before it matures or that the cost or amortized cost may not be realizable.

.11 A loss in value of a portfolio investment that is other than a temporary decline is obvious in some cases, such as bankruptcy or an agreement to sell an investment at an amount which will result in a loss. In less obvious situations, impairment of the value of an investment may be indicated by conditions such as:

(a) a prolonged period during which the quoted market value of the investment is less than its cost or amortized cost;

(b) severe losses by the investee in the current year or current and prior years;

(c) continued losses by the investee for a period of years;

(d) liquidity or going concern problems of the investee; and

(e) the current fair value of the investment (for example, an appraisal) is less than its cost or amortized cost.

.12 The disappearance of an active market because the securities are no longer publicly traded is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.

.13 When a condition, indicating that an impairment in value of a portfolio investment may have occurred, has persisted for a period of three or four years, there is a general presumption that there has been a loss in value which is other than a temporary decline. This presumption can only be rebutted by persuasive evidence to the contrary.

.14 When a portfolio investment has been written down to recognize a loss, the new carrying value is deemed to be the new cost basis for subsequent accounting purposes and, accordingly, a subsequent increase in value would be recognized in the statement of operations only when realized.

Gains and losses on sales of portfolio investments

.15 *For the purposes of calculating a gain or loss on the sale of a portfolio investment, the cost of the investment sold should be calculated on the basis of the average carrying value of the portfolio investment as measured in relation to cost or amortized cost. The gain or loss on the sale of a portfolio investment should be included in the statement of operations in the period of sale.* [APRIL 2012]

.16 The average carrying value method does not require that the cost of specific purchases of a particular security be tracked for the purpose of calculating a gain or loss on the sale of all or part of the government's investment in the security. Gains or losses on individual sales are considered to be part of the ultimate gain or loss on the entire holding of each portfolio investment.

Portfolio investments with concessionary terms

.17 *When the terms associated with a government's portfolio investment are so concessionary that the substance of the transaction is that all or a significant part of the investment is in the nature of a grant, the grant portion of the transaction should be recognized as an expense when the investment is made.* [MARCH 1999]

.18 Portfolio investments with significant concessionary terms at the date of investment require particular consideration because of their nature. When a government invests in an organization and the terms associated with the investment are so concessionary that the government expects to make little or no return on its investment or may not expect the return of its capital in the future, all or a significant part of that investment is in the nature of a grant and should be accounted for as such when the investment is made.

.19 If all or a portion of an investment transaction is considered to be in the nature of a grant because of the terms specified, that grant portion should be accounted for as a grant in accordance with GOVERNMENT TRANSFERS, Section PS 3410, when the investment is made. The nature and substance of the terms specified for the portfolio investment would determine how to account for the transaction:

(a) When the terms of a portfolio investment are such that a government does not expect the return of its capital in the future, the entire investment is in the nature of a grant and should be accounted for as such when the investment is made.

(b) When the terms of a portfolio investment are such that a government expects little or no return on its investment, but expects the return of its capital at a specified date in the future, present value techniques would be used to quantify the portion of the investment transaction that is, in substance, a grant. In such circumstances, the net remaining balance of the transaction would be accounted for as a discounted portfolio investment in accordance with this Section.

(c) There may be instances where the accounting proposed in both (a) and (b) of this paragraph must be applied in accounting for a portfolio investment. Such circumstances would exist when:

(i) at the date of investment, the government does not expect the full return of its capital; and

(ii) the terms of the portfolio investment are such that the government expects little or no return on its investment, but expects the return of part of its capital at a specified date in the future.

In such circumstances, a government would recognize the portion of the investment capital that it does not expect to recover as a grant at the date of investment. Present value techniques would then be used to quantify the portion of the remainder of the investment that is, in substance, a grant because of the concessionary terms associated with it, in accordance with paragraphs PS 3041.20-.26.

.20 When present value techniques are used to quantify the portion of a portfolio investment that is, in substance, a grant, the government's average borrowing rate may be appropriate to use as the discount rate in determining the present value of the investment. The grant portion, or "investment discount", would be calculated as the difference between the cost of the investment and its present value.

.21 *When a government uses present value techniques to recognize part of a portfolio investment as a grant, the recorded value of the investment at the date of investment should be its cost less the amount calculated as the investment discount. The amount of the investment discount should be amortized to revenue applying the effective interest method over the term to redemption or maturity of the investment.* [APRIL 2012]

.22 The amortization of the investment discount would be recorded as an increase in the carrying value of the investment and investment income.

.23 The dividends or interest earned, as specified in the terms of the investment, should cease to be accrued when the collectibility of such investment income is not reasonably assured. Continuing to accrue dividends or interest in such circumstances would overstate revenue.

.24 Amortization of the investment discount would cease if the collectibility of the dividends or interest earned is not reasonably assured, or if the return of the government's capital is no longer reasonably assured. In such circumstances, consideration would be given to whether an impairment in the government's portfolio investment had occurred, and should be accounted for, in accordance with paragraphs PS 3041.07-.14.

.25 When the collectibility of the dividends or interest earned is not reasonably assured, any dividends or interest previously accrued but not received, to the extent that their collection is doubtful, should either be provided for through a valuation allowance or written off in the financial statements.

.26 When an investment has been recorded as a grant in accordance with paragraph PS 3041.19(a) and the government subsequently receives all or part of its capital back, the return of capital would be recognized as revenue when received.

PRESENTATION AND DISCLOSURE

.27 *Portfolio investments should be reported separately on the statement of financial position.* [MARCH 1999]

.28 *The basis of valuation of portfolio investments should be disclosed.* [MARCH 1999]

.29 *Income from portfolio investments should be reported separately on the statement of operations.* [MARCH 1999]

.30 *When portfolio investments include marketable securities, the quoted market value of such securities as well as their carrying value should be disclosed.* [MARCH 1999]

.31 When presenting its portfolio investments and supporting disclosures, a government also considers the applicable standards in FINANCIAL INSTRUMENTS, Section PS 3450.

.32 Governments may make portfolio investments to promote economic or regional development, to assist, for policy reasons, an organization in financial difficulties, or to obtain a return on investment, whether by means of interest or dividends or by means of an increase in the value of the investment. Regardless of the reasons for a portfolio investment, disclosure of its quoted market value can provide objective and useful evidence relating to the financial health of the investee and the value of the government's investment.

.33 In circumstances where the terms of an investment are so concessionary that all or a significant part of the transaction is recognized as a grant when the investment is made in accordance with PS 3041.17, disclosure of the original amount paid for the investment should be provided in addition to its carrying value and market value, if any, in order that complete information about the entire transaction is provided. This information could be provided in conjunction with information about the basis of valuation of the investment.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.34 This Section applies in the period FINANCIAL STATEMENT PRESENTATION, Section PS 1201, FOREIGN CURRENCY TRANSLATION, Section PS 2601, and FINANCIAL INSTRUMENTS, Section PS 3450, are adopted.

.35 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraphs PS 3041.02(b)-(c) and PS 3041.07. The amendments are applicable at the same time as Section PS 1202, for fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted if Section PS 1202 is also early adopted. Prior period amounts would need to be restated to conform to the requirements for comparative financial information in Section PS 1202.

Footnotes

1. The term "financial statements" refers to the financial reports published by a public sector entity that present the financial position and changes in financial position of the reporting entity. Refer to Figure 3.1 in Chapter 3 of the Conceptual Framework, where financial statements are identified as an important type of financial report.