

Financial Instruments Federal Government Narrow-scope Amendments

— Basis for Conclusions

Sections PS 1201, PS 2601 and PS 3450

FOREWORD

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 follows when developing or amending standards.

This document has been prepared by staff of PSAB. It does not form part of the CPA Canada Public Sector Accounting 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.

October 2020

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BACKGROUND

- 1 The federal government currently presents the exchange gains and losses related to its foreign reserves directly in the statement of operations and does not defer them. This is the result of a historical scope exemption in the archived FOREIGN CURRENCY TRANSLATION, Section PS 2600, which has been carried forward to the existing FOREIGN CURRENCY TRANSLATION, Section PS 2601.

EXEMPTIONS IN SECTION PS 2601

- 2 PSAB consulted senior governments, local governments and government organizations on the topic of financial instruments. One of the issues brought forward was that the federal government scope exemptions provided in Section PS 2601 do not work alone. There are derivatives associated with the federal government's foreign reserves.
- 3 The fair value of these derivatives includes several components, such as exchange gains and losses, interest rate gains and losses, and credit risk. The exchange gain or loss component of the fair value change of a derivative represents the change in value driven by movements in foreign exchange rates. This component can be segregated and presented separately.
- 4 Through these amendments, PSAB's intention is to permit the federal government to present its exchange gains and losses related to its foreign reserves, including the associated derivatives, directly in the statement of operations. The Board believes that such presentation is transparent.

OTHER MATTERS

- 5 In reviewing feedback received on the Exposure Draft, the Board noted that many respondents also encouraged PSAB to expand the presentation being provided to the federal government to other public sector entities. Respondents highlighted that other entities could benefit from this presentation as it would allow for better matching of their exchange gains and losses with derivatives intended to mitigate foreign currency risk.
- 6 Some respondents additionally raised concern over the application of scope exemptions provided to only one public sector entity. They indicated that this could undermine a general-purpose accounting framework and reduce comparability. Further, some respondents did not feel that sufficient rationale was provided by the Board to justify why the federal government should be subject to a distinctive accounting treatment.

- 7 The Board ultimately concluded that these amendments should be approved. This was because most respondents either agreed or noted no objections with the specific proposals in the Exposure Draft. The Board also approved the issuance of a new Exposure Draft in July 2020, "Financial Instruments: Foreign Exchange Narrow-scope Amendments", to address the comments and concerns highlighted by respondents above. Responses to the new Exposure Draft will be deliberated at a later date by the Board.
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