

# Narrow-scope Amendments, PSG-2, Lessee Accounting for Operating Leases — Basis for Conclusions

## FOREWORD

CPA Canada Public Sector Accounting (PSA) Handbook Revisions Release No. 60, issued in February 2025, contained a narrow-scope amendment to remove from former Appendix B to PUBLIC SECTOR GUIDELINE (PSG) 2, Leased Tangible Capital Assets, an outdated cross-reference to LEASES, Section 3065, in the former financial reporting framework set out in withdrawn Part V of the CPA Canada Handbook – Accounting. New text from former Section 3065 was instead added to PSG-2 and the decision tree reference to former Section 3065 replaced by a reference to the new paragraphs PSG-2.4A-4C.

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 PSAB 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 followed when developing standards.

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 (GAAP). Basis for Conclusions documents also do not include any guidance on the application of the relevant Section or Guideline.

February 2025

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## INTRODUCTION

- BC.01 This Basis for Conclusions summarizes the considerations PSAB made in approving the PSA Handbook amendments exposed for comment in the February 2024 Exposure Draft, "Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices." The amendments related to deleting an outdated cross-reference in the decision tree in former Appendix B to PSG-2, which addresses lessee accounting for operating leases.
- BC.02 Respondents supported removing the outdated cross-reference to Section 3065 in former Part V of the Handbook, as described in paragraph BC.01, and changing the related effective date to April 1, 2026. However, several respondents suggested replacing the cross-reference.
- BC.03 The amendments apply to all public sector entities applying the guidelines and standards referenced in this Basis for Conclusions.

## INTENDED OUTCOMES AND EXPECTED EFFECTS

- BC.04 These changes are important for maintaining the quality of the PSA Handbook and users' understanding of its requirements. Removing an outdated cross-reference in Appendix B to PSG-2 ensures the PSA Handbook does not reference other financial reporting frameworks, which are subject to change and outside of PSAB's control. Addition of three new paragraphs on lessee accounting for operating leases, as part of the identification of when the benefits and risks of ownership have (or have not) been transferred in relation to a leased tangible capital asset, will not likely change practice.

## APPENDIX B TO PSG-2, LEASED TANGIBLE CAPITAL ASSETS,

- BC.05 A respondent to the Exposure Draft, "2022-2023 Annual Improvements to Public Sector Accounting Standards," identified a need for an additional change to Appendix B to PSG-2. PSAB agreed with the suggestion and proposed to implement the change.
- BC.06 The decision tree in Appendix B to PSG-2 indicated that operating leases must be accounted for by lessees in accordance with the former Section 3065 in Part V of the Handbook, the "pre-changeover standards." Part V has since been removed from the Handbook. PSAB agreed that it is inappropriate for an appendix to require accounting under an alternative accounting framework, especially one that no longer exists.
- BC.07 PSAB decided the issue should be resolved by deleting the outdated reference in the decision tree to former Section 3065 in Part V of the Handbook. The remaining text would require accounting for the lease as an operating lease. The Exposure Draft proposed that no specific cross-reference would replace the deleted text. An entity would, therefore, be required to use the guidance in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, to determine the appropriate accounting for operating leases by lessees, as the PSA Handbook does not include a standard dealing with the topic.
- BC.08 The Exposure Draft noted that this change may create the need for a new or updated entity-developed accounting policy for lessee accounting for operating leases for some entities. PSAB included guidance for updating entity-developed accounting policies in Section PS 1150 and ACCOUNTING CHANGES, Section PS 2120, as consequential amendments of issuing Section PS 1202. So, the Board concluded it was appropriate to propose the same effective date as FINANCIAL STATEMENT PRESENTATION, Section PS 1202, for any required change in accounting policy for lessee accounting for operating leases resulting from the narrow-scope amendment proposed in the Exposure Draft.

#### **Responses to the February 2024 Exposure Draft**

- BC.09 As noted in paragraph BC.02, several respondents suggested replacing this cross-reference. The suggested alternatives were used as the basis for a Public Sector Accounting Discussion Group meeting on June 7, 2024. Some respondents also noted confusion regarding entity-developed accounting policies and application of the Section PS 1150 guidance, beyond the narrow-scope of the Exposure Draft.
- BC.10 The Public Sector Accounting Discussion Group recommended PSAB adopt an approach that would not change practice for lessee accounting for operating leases. The Group recommended the Board add text to PSG-2 that would reflect the accounting required by Section 3065 of former Part V of the Handbook for lessee accounting for operating leases.
- BC.11 PSAB ultimately concluded that it would accept the Public Sector Accounting Discussion Group's recommendation for two reasons:
- (a) It would allow the PSA Handbook to stand on its own without reference to another financial reporting framework outside of its control and subject to change.
  - (b) As a narrow-scope amendment, it would avoid a substantive change in practice for public sector entities, some of which may otherwise have applied Section PS 1150 and, by leveraging International Public Sector Accounting Standard 43, *Leases*, adopted a right-to-use model for lessee accounting for operating leases. The Board agreed that adopting such a model through a narrow-scope amendment rather than considering its merits in a leases project would be inappropriate.
- BC.12 Note that PSAB renamed former Appendix B of PSG-2 as Appendix A. Previously, the PSG-2 Glossary was called Appendix A. No other glossaries in the PSA Handbook are identified as appendices. So, the PSG-2 Glossary no longer has an appendix number assigned to it, and former Appendix B to PSG-2 has been renamed Appendix A.
- BC.13 Further, PSAB chose to add the new text to the part of PSG-2 that addresses identifying when substantially all the benefits and risks of ownership of the leased tangible asset have been transferred to the lessee. The rationale for this location as follows:
- (a) The PSA Handbook does not deal with all leases. It addresses only leased tangible capital assets, and only from a lessee perspective.
  - (b) PSG-2 was drafted after the Board added standards to the PSA Handbook requiring the capitalization of tangible capital assets. It was intended to fill the gap in the PSA Handbook for guidance on leased tangible capital assets to ensure that if, through a lease, a public sector entity acquired substantially all the benefits and risks of ownership of the leased tangible asset, that asset would be accounted for in the same way as purchased, constructed or developed tangible capital assets.
  - (c) Including lessee accounting for operating leases paragraphs in this part of PSG-2 is consistent with the Guideline's objective. That is, PSG-2 is not focused on all areas of lessee accounting; thus, adding a separate Section on operating lease accounting is inconsistent with this focus.

#### **Effective date**

- BC.14 The Exposure Draft proposed an effective date of April 1, 2026. This date anticipated entities having to draft an entity-developed accounting policy for lessee accounting for operating leases. Accordingly, PSAB proposed the same effective date as for the new Conceptual Framework for Financial Reporting in the Public Sector and the new reporting model in Section PS 1202. Consequential amendments arising from those pronouncements require entities to update their entity-developed accounting policies to be consistent with the Conceptual Framework by April 1, 2026, or have a plan in place to do so. Respondents were in favour of this effective date.

BC.15 However, PSAB ultimately chose to not just remove the outdated cross-reference in Appendix B to PSG-2. The Board also chose to import three paragraphs on lessee accounting for operating leases from Section 3065 of former Part V of the Handbook to PSG-2 and change the cross-reference in the Appendix B (now Appendix A) decision tree to those new PSG-2 paragraphs. As a result, the Board concluded there would be no change in practice. Lessee entities previously referred to those same paragraphs in accounting for operating leases because of the cross-reference to former Part V in Appendix B to PSG-2.

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