

2022-2023 Annual Improvements to Public Sector Accounting Standards

FOREWORD

In April 2023, the Public Sector Accounting Board (PSAB) released the 2022-2023 annual improvements to CPA Canada Public Sector Accounting (PSA) Handbook. 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 2023

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BACKGROUND

1. In June 2018, PSAB adopted an annual improvements process to correct errors in the wording, to clarify the PSA Handbook or other guidance, or to correct relatively minor unintended consequences, oversights or conflicts. These amendments are bundled together to reduce the number of individual changes to the standards or other guidance. Major or narrow-scope amendments to the standards or other guidance that change practice are not included in the annual improvements process.
2. PSAB released the Exposure Draft, "2022-2023 Annual Improvements to Public Sector Accounting Standards," in August 2022. The Exposure Draft proposed categories of amendments to:
 - (a) Replace the term "summary financial statements" with "financial statements" or "financial reports";
 - (b) Clarify the Introduction to Public Sector Guidelines and the removal of outdated guidance related to local governments;
 - (c) Update the transitional provisions in PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160, to explicitly state that early adoption is permitted;
 - (d) Change some references to the term "power" to "ability" or "authority", as appropriate, given the use of the term "power" to reference sovereign or equivalent powers in Chapter 5 of the Conceptual Framework;
 - (e) Update to correct for grammatical errors in the decision tree in LOANS RECEIVABLE, Section PS 3050;
 - (f) Update PUBLIC SECTOR GUIDELINE, PSG-8, Purchased Intangibles, to clarify its application to inter-entity transactions;
 - (g) Update the designation and numbering of existing appendices in the PSA Handbook to align with categories of guidance used in the International Public Sector Accounting Standards (IPSAS). This is to ensure consistent classification of similar categories of guidance should PSAB adapt IPSAS principles set out in appendices in developing Canadian standards in the future; and
 - (h) Update the terminology in many of the standards otherwise addressed as part of the Annual Improvements from "government" to "public sector entity" or "entity", as appropriate.
3. Respondents generally agreed with the proposals set out in the Exposure Draft. Some minor and substantive comments were received, considered by PSAB and addressed in finalizing the improvements.

4. PSAB approved the 2022-2023 annual improvements as proposed in the Exposure Draft, with some amendments to address comments from respondents, and with two exceptions:
 - (a) Terminology changes to replace “government” with “public sector entity” were not approved for RESTRICTED ASSETS AND REVENUES, Section PS 3100, because of complexities related to internally restricted entities that warrant further consideration.
 - (b) The Board has deferred updating the designation of existing PSA Handbook appendices to respond to respondents’ requests for clarity about the status of each appendix as a source of GAAP, as described in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d).
5. PSAB agreed to publish the approved annual improvements in the PSA Handbook in two phases.
 - (a) In April 2023, the PSA Handbook release allowed early adoption of Section PS 3160, and clarified the application of PURCHASED INTANGIBLES, PSG-8, to inter-entity transactions. The effective date of these is April 1, 2023.
 - (b) The remainder of the annual improvements, excluding the two exceptions noted, are intended to be published in a PSA Handbook release later in 2023, with an effective date of the first day of the month published.
6. This approach was taken to:
 - (a) facilitate a freeze in the publication of the CPA Canada Handbooks to allow adoption of new software to improve the process of Handbook updates, and
 - (b) allow coordination of the remaining annual improvements with the publication in fall 2023 of consequential amendments related to the new reporting model, FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

AMENDMENTS TO TRANSITIONAL PROVISIONS IN PUBLIC PRIVATE PARTNERSHIPS, SECTION PS 3160 TO PERMIT EARLY ADOPTION

7. As issued, the transitional provisions in Section PS 3160, did not explicitly state that early adoption is permitted. PSAB generally allows early adoption of a new standard. It was an error to not include such permission in Section PS 3160. So, the Board updated the transitional provisions in the Section to indicate that early adoption is permitted. Exposure Draft responses supported this change.
8. In approving the change, PSAB noted that the text allowing early adoption would be redundant because the effective date of both Section PS 3160 and the annual improvement was April 1, 2023. Regardless, the Board concluded that for internal consistency in the PSA Handbook and future reference in standard setting, including the sentence allowing early adoption was appropriate.

AMENDMENTS TO CLARIFY APPLICATION OF PSG-8, PURCHASED INTANGIBLES, TO INTER-ENTITY TRANSACTIONS

9. INTER-ENTITY TRANSACTIONS, Section PS 3420, deals with how to account for and report transactions between entities under common control of the reporting entity from both provider and recipient perspectives. That is, both entities party to a transaction are within the same reporting entity.
10. Paragraph PSG-8.2 broadly excluded from the Guideline’s scope all intangibles acquired through inter-entity transactions. This meant that intangibles purchased through an inter-entity transaction would not be recognized as assets but would be written off to expenses on acquisition. PSAB had received stakeholder input indicating that if the intangible was originally purchased from outside the reporting entity, this write-off would be inappropriate for the reporting entity on consolidation.
11. PSAB concluded this was an unintended consequence and proposed in the Exposure Draft to clarify PSG-8. The intent was that if an intangible was initially purchased through an exchange transaction by a controlled entity from outside of a consolidated reporting entity, that reporting entity should be able to recognize the intangible as an asset in its consolidated financial statements, if it meets the asset definition and the general recognition criteria. The Board agreed that such asset recognition should be allowed at the consolidated reporting entity level regardless of whether the intangible is subsequently transferred to another component or controlled entity within the consolidated reporting entity. The Exposure Draft proposed new text for PSG-8 to clarify that an intangible purchased from an arm’s length body outside of the reporting entity would continue to be recognized as an asset, even if subsequently transferred within the reporting entity.
12. PSAB had a concern in approving the change as an annual improvement as it had the potential to change practice if an entity had early adopted PSG-8. The Board agreed to include the proposal in the Exposure Draft because the effective date of PSG-8 and the effective date of the annual improvement would be the same, April 1, 2023. Some respondents also raised a concern as to whether the proposed additions to PSG-8 met the definition of an annual improvement.
13. This was the most controversial issue in the Exposure Draft and received the most feedback. However, most respondents agreed or partially agreed with the proposed amendments to PSG-8 to clarify application to inter-entity transactions. Some provided suggestions for improvement. One respondent provided an alternative suggestion that better fit the definition of an annual improvement but did not address non-purchased and developed intangibles transferred within a reporting entity.

14. In response to the suggestion, PSAB agreed to the alternative approach by clarifying paragraph PS 3420.09 to address the issue. That paragraph permits recipients to recognize assets or liabilities in their financial statements when the items satisfy the definition and recognition criteria for an asset and liability in the Conceptual Framework. The Board added that a transferred asset initially recognized by a public sector entity as a purchased intangible in applying PSG-8, continues to be recognized as a purchased intangible by the recipient in an inter-entity transaction. A reference footnote was added to paragraph PSG-8.2 to allow the exception permitted by the new sentence in paragraph PS 3420.09.
15. Given input from respondents, PSAB modified this exception through a clarification footnote added to paragraph PS 3420.09 to note that non-purchased (formerly identified as “inherited”) and developed intangibles cannot be transferred within a reporting entity and be considered purchased for the purposes of PSG-8. It also states that non-purchased and developed intangibles cannot be transferred outside of the reporting entity and then repurchased by any entity in the reporting entity and be considered “purchased” for the purposes of PSG-8. Non-purchased and developed intangibles continue to be excluded from recognition by FINANCIAL STATEMENT PRESENTATION, Section PS 1201 (transferred from superseded Section PS 1000 as a consequential amendment to issuing the Conceptual Framework).
16. PSAB’s reasons for choosing this approach were:
 - (a) The amendment clarifies PSAB’s intent with only minimal change to PSG-8, which already defines a purchased intangible as arising from an arm’s length transaction. A new footnote to paragraph PSG-8.2 cross-references paragraph PS 3420.09.
 - (b) All requirements within the PSA Handbook that address inter-entity transactions are in one place.
 - (c) An asset recognized when purchased in an arm’s length transaction cannot be rendered ineligible for continued recognition as an asset solely because it has been transferred within a reporting entity.
 - (d) Adding a clarification to paragraph PS 3420.09 better meets the definition of an annual improvement as it merely clarifies PSAB’s intent.

EFFECTIVE DATE

17. PSAB issued these two amendments in the April 2023 PSA Handbook update. These amendments are effective for years beginning on or after April 1, 2023. The Board intends that the amendments be applied retrospectively given that annual improvements are not expected to affect practice, and many are purely editorial in nature. Any annual improvements proposed in the 2022-2023 Exposure Draft and approved by PSAB but not issued in the April 2023 PSA Handbook Release will be issued in a separate future release.

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