



Alert

Concepts Underlying Financial Performance – PSAB Deliberating
Feedback Received on Four Exposure Drafts

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Background

In January 2021, the Public Sector Accounting Board (“PSAB”) issued four related Exposure Drafts (“EDs”) in connection with a high priority project to consider the concepts underlying the measure of financial performance of public sector entities. The issued EDs propose a revised Conceptual Framework and a revised financial statement presentation standard, as well as consequential amendments to related standards of the CPA Canada Public Sector Accounting (“PSA”) Handbook. The concepts in these four EDs build on each other and for this reason the recommended reading order for these EDs is as follows:

1. *The Conceptual Framework for Financial Reporting in the Public Sector* ED
2. *Consequential Amendments Arising from the Proposed Conceptual Framework* ED
3. *Financial Statement Presentation, Proposed Section PS 1202* ED
4. *Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202* ED

The comment periods for these EDs closed on June 30, 2021.

Current Status

PSAB is currently deliberating the feedback received on the EDs, following its robust and rigorous due process. Final approval of the revised Conceptual Framework, new financial statement presentation standard, and related consequential amendments is expected to occur in Q4 2021.

A Revised Conceptual Framework and Consequential Amendments

The Revised Conceptual Framework

The Conceptual Framework for Financial Reporting in the Public Sector ED proposes issuing a revised Conceptual Framework to replace two Sections in the PSA Handbook:

- PS 1000 *Financial Statement Concepts*
- PS 1100 *Financial Statement Objectives*

The revised Conceptual Framework would be effective immediately and PSAB will start using the revised Conceptual Framework once it is issued.

The revised Conceptual Framework will include ten chapters. The primary changes proposed by the

revised Conceptual Framework in the ED are as follows:

Chapter 1: Introduction to the Conceptual Framework

- Defines a conceptual framework and outlines the need for objectives.

Chapter 2: Characteristics of Public Sector Entities

- PSAB has included material about how the characteristics apply to government organizations and components.
- Recognition that there are several characteristics that do not apply to all public sector entities (e.g. a monopolistic environment).
- Longevity of the public sector has been added as a characteristic.

Chapter 3: Financial Reporting Objective

- The financial reporting objective discusses accountability to primary users (i.e. the public and its elected or appointed representatives).
- Broader notion of the term “service capacity” is proposed in the discussion of the broad accountabilities of financial reporting.
 - No existing terminology would be replaced in the financial statements.

Chapter 4: Role of Financial Statements

- Focuses on the financial statement’s roles in the overall financial reporting.
 - Help fulfill a public sector entity’s duty to be publicly accountable.
 - Include information to help satisfy the broad financial reporting accountabilities.

Chapter 5: Financial Statement Foundations

- The following four financial statement foundations are being proposed:
 - Identifiable reporting entity (including its components and organizations)
 - Control
 - Unit of measure – Canadian dollar with no adjustment for changes in purchasing power
 - Basis of accounting – accrual accounting
- The concept of control has been updated as to build on standards in the PSA Handbook.
- Service capacity has been removed as a foundation of the financial statements.

Chapter 6: Financial Statement Objectives

- Financial statement objectives establish the information to be included in financial statements to meet the overall accountability objective.
 - Scope of financial statements

- Reporting financial position
 - Reporting changes in financial position
 - Comparison budget
 - Disclosing non-compliance with financial authorities
 - Disclosing risks and uncertainties
- Objectives are met through the financial reporting model.

Chapter 7: Financial Statement Information: Qualitative Characteristics and Related Considerations

- Qualitative characteristics are the attributes that make the financial statement information useful to users for accountability purposes. The proposed characteristics include:
 - Relevance
 - Faithful representation
 - Verifiability
 - Comparability
 - Understandability, and
 - Timeliness.
- In addition to the benefit-versus-cost consideration in the existing framework, PSAB is proposing to include materiality and prudence as additional considerations.

Chapter 8: Elements of Financial Statements

- Assets and liability definitions were modified to be singular and constructed in a parallel fashion.
- Revenues and expenses are proposed to be defined in terms of changes in assets and liabilities.
 - Deferred inflows and deferred outflows that do not meet the definition of one of these financial elements are not recognized in the financial statements.
- Definitions of “economic resources” and “economic obligations” have been added
 - Definitions will be consistent with concepts in Sections PS 3200 *Liabilities* and PS 3210 *Assets*.

Chapter 9: Recognition and Measurement

- Remains relatively consistent with existing framework.
- Enhancement of the derecognition criteria is being proposed.
- The following recognition exclusions are proposed to be moved from the revised conceptual framework to Section PS 1202 *Financial Statement Presentation*, until they can be considered further:
 - Natural resources and Crown lands inherited in right of the Crown
 - All works of art and historical treasures, and
 - All intangibles.
- PSAB recognizes that while historical cost is the primary measurement attribute, other measurement attributes may be required at the standards level.

- Improvements to the going concern discussion were proposed to reflect the Canadian public sector environment.

Chapter 10: Presentation Concepts

- New presentation concepts such as disclosure of the methods, assumptions and judgments have been added to promote the preparation of understandable financial statements that meet the accountability objective.

Consequential Amendments

As a result of this ED a separate ED, *Consequential Amendments Arising from the Proposed Conceptual Framework*, was also issued. The proposed consequential amendments would include the withdrawal of the existing framework and a revision to the definition of materiality. The proposed amendments are all editorial in nature.

PSAB expects to issue the final consequential amendments after it finalizes the proposed Conceptual Framework. Similar to the Conceptual Framework, these amendments would be effective immediately when issued.

Proposed PSAS Financial Statement Presentation Standard and Consequential Amendments

Proposed Financial Statement Presentation Standard

The *Financial Statement Presentation, Proposed Section PS 1202* ED proposes to issue a revised financial statement presentation standard, PS 1202, that would replace PS 1201 *Financial Statement Presentation*.

The proposals would be effective for fiscal years beginning on or after April 1, 2024 and would be applied retroactively with restatement of prior periods.

The proposed reporting model would remove several statements, add new statements, and make amendments to some statements that are retained, in addition to amendments surrounding the budget. The existing and proposed reporting model are compared below:

Reporting Model for the Canadian Public Sector	
Existing	Proposed
Statement of Financial Position	Statement of Financial Position
Statement of Operations	Statement of Operations
Statement of Cash Flow	Statement of Cash Flow
Statement of Changes in Net Debt	N/A
Statement of Remeasurement Gains and Losses	N/A (unless detail in Statement of Changes in Net Assets or Net Liabilities is insufficient for the remeasurement component)
N/A	Statement of Net Financial Assets or Net Financial Liabilities
N/A	Statement of Changes in Net Assets or Net Liabilities
Notes and Schedules	Notes and Schedules

The proposed new statements and key changes to existing statements are as follows:

Statement of Financial Position

- The structure of the statement is amended to present as follows:
 - Financial assets
 - Non-financial assets
 - Financial liabilities
 - Non-financial liabilities
 - Net assets or net liability position
- Net debt or net financial assets is moved to a separate statement - Net Financial Assets or Net Financial Liabilities.
- Net assets or net liabilities will present components consisting of the existing accumulated surplus or deficit, accumulated remeasurement gains and losses and is proposed to include a new third component, "accumulated other".
 - Only PSAB could designate revenues and expenses for recognition in this component and currently nothing has been designated.
 - This component may be considered when determining the accounting for endowments, natural capital and heritage resources.

Statement of Operations

- The statement remains largely unchanged.
- Clarity has been provided in relation to the presentation of revenues and expenses by indicating that they are to be reported at their gross amounts unless required otherwise by another standard.

Statement of Cash Flow

- Financing activities will be isolated and presented after a subtotal of the net cash changes of all other categories of inflows and outflows. This proposed presentation highlights the entity's sustainability by identifying whether there is a need to raise cash through financing activities or not.

Statement of Changes in Net Assets or Net Liabilities

- A new statement that will be used to reconcile the opening and closing balances of each component of net assets or net liabilities described above.
- Captures all revenues and expenses incurred in the period (including those recognized directly in net assets or net liabilities).

Statement of Net Financial Assets or Net Financial Liabilities

- A new statement that presents the net financial assets or net financial liabilities indicator of financial position.
 - An explanation of the meaning of the net financial asset or net financial liabilities indicator should be included on the statement.
- PSAB proposes to retain the requirement to present actual capital spending compared to budgeted.
 - This can be presented on the statement as an explanatory item or in the notes.

Budget

- Budget amounts on the financial statements should be presented:
 - For the same scope of activities
 - Using the same basis of accounting
 - Following the same accounting principles, and
 - Using the same classifications as the actual amounts.
- Acknowledgement when a budget is not prepared or approved should be presented on the face of the financial statements.
- Two situations in which an entity may present an amended approved budget, both relating to changes in governance initiated by primary users. These situations include:
 - By a government when there is an election and the newly elected government prepares a new budget that is approved by legislature, council or other equivalent authority, and

- By a government organization when the majority of its governing body has been newly elected or appointed and it approves a new budget.

Consequential Amendments

As a result of this ED a sperate ED, *Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202*, was also issued. These consequential amendments include:

- Amending references to PS 1202 *Financial Statement Presentation* and new statements.
- Acknowledging multiple components of net assets and net liabilities.
- Introducing “financial instrument assets” and “financial instrument liabilities”.
 - Section PS 3450 *Financial Instruments*, would update terminology, allowing for certain financial instruments which may be presented as non-financial assets or liabilities to be recognized and measured as financial instrument assets or financial instrument liabilities.
- Recognizing that liabilities on the statement of financial position has been split into “financial liabilities” and “non-financial liabilities”.

PSAB expects to issue these final consequential amendments after it finalizes proposed Section PS 1202. The proposed amendments would be effective at the same time: for fiscal years beginning on or after April 1, 2024. The proposed consequential amendments would be applied retrospectively with restatement of prior periods.

Where can I learn more?

The full history of PSAB’s project on *Concepts Underlying Financial Performance*, including related supporting materials, can be accessed [here](#).

The full history of *The Conceptual Framework for Financial Reporting in the Public Sector* ED and *Consequential Amendments Arising from the Proposed Conceptual Framework* ED, including related supporting materials, can be accessed [here](#) and [here](#).

The full history of the *Financial Statement Presentation, Proposed Section PS 1202* ED and *Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202* ED, including related supporting materials, can be accessed [here](#) and [here](#).

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