



## **Exposure Draft**

**Narrow-scope Amendment:  
GAAP Designation of PSA  
Handbook Appendices**

# **Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices**

**February 2024**

**This Exposure Draft closes for comment on April 11, 2024.**

PSAB values feedback from any interested party on any or all the questions posed in this Exposure Draft. You can provide feedback to the Board in a variety of ways:

- Participate in the [Connect.FRASCanada.ca](https://connect.frascanada.ca) surveys.
- Write a response comment letter and upload it via our online form. Response letters can be addressed to:

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Director, Public Sector Accounting  
Public Sector Accounting Board  
277 Wellington Street West  
Toronto ON M5V 3H2

**Note:** Response letters will be posted online shortly after this Exposure Draft closes for comment. Confidentiality can be requested when uploading letters via the [online form](#). As confidentiality cannot be provided using the Connect platform, respondents wishing confidentiality should send in a comment letter.

Helpful tips when participating in a consultation:

- Comments are most helpful if they relate to a specific paragraph or group of paragraphs found in the Exposure Draft.
- If you identify a potential issue in this Exposure Draft's proposals, we encourage you to clearly explain the issue and include a suggested alternative, supported by specific reasoning.
- PSAB does not expect you to respond to every single question posed – only those to which you feel you can or should respond.

## INTRODUCTION

This Exposure Draft proposes narrow-scope amendments to elevate the level of generally accepted accounting principles (GAAP) designated for four CPA Canada Public Sector Accounting (PSA) Handbook appendices. These proposed amendments may comprise a change in practice for some public sector entities in their application of the four standards affected.

A further narrow-scope amendment is proposed to remove an outdated cross-reference in a Public Sector Accounting Guideline, which may prompt entities to amend their accounting policy for operating leases.

## HIGHLIGHTS

The Public Sector Accounting Board (PSAB) proposes, subject to comments received following exposure, to issue clarifications to the GAAP designation of certain appendices in the PSA Handbook (i.e., what level of GAAP an appendix comprises), and remove an outdated cross-reference in a decision tree appendix to an accounting framework that no longer exists in the CPA Canada Handbook – Accounting.

The Basis for Conclusions, which accompanies this Exposure Draft, sets out PSAB's reasons for its proposals.

## Main features of the Exposure Draft

The following narrow-scope amendments are being proposed.

- **Change the level of GAAP designation of four appendices from level (iii) to level (i):**<sup>1</sup> [Appendix A](#) to REVENUE, Section PS 3400, [Appendix B](#) to GOVERNMENT TRANSFERS, Section PS 3410, [Appendix A](#) to FINANCIAL INSTRUMENTS, Section PS 3450, and [Appendix A](#) to DISCLOSURE OF ALLOCATED EXPENSES BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4270, are proposed to be identified as integral to the standard they are part of, as application guidance and as comprising level (i) GAAP.
- **Remove an outdated cross-reference in Appendix B to Public Sector Guidance (PSG) 2, Leased Tangible Capital Assets:** The text in the last box of the decision tree in [Appendix B](#) to PSG-2 is proposed to be deleted, as it contains an outdated cross-reference to LEASES, Section 3065 in former Part V of the Handbook, pre-changeover accounting standards. Part V has since been removed from the Handbook. This deletion means that, because the PSA Handbook contains no pronouncements related to operating leases, entities will have to apply the GAAP hierarchy in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, [Section PS 1150](#), to determine the appropriate accounting for operating leases.

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<sup>1</sup> GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, [Section PS 1150](#), identifies the level of authority in the GAAP hierarchy for the primary sources of GAAP as follows:

**Primary sources of GAAP** are, in descending order of authority:

- standards in Sections PS 1202-PS 3510;
- Public Sector Guidelines; and
- appendices and illustrative material of those pronouncements described in (i)-(ii) above.

## Appendix A

Appendix A is provided as context. It is not for comment but is a background to the proposals in this Exposure Draft, as the changes presented in the appendix have already been exposed for public comment and approved by PSAB.

The appendix summarizes the changes approved by PSAB in December 2022 to the classification and numbering of PSA Handbook appendices. Classification involves identifying an appendix as integral to a standard and thus as application guidance, or identifying an appendix as illustrative (e.g., decision trees, illustrative examples or illustrative financial statements). The approved classification and numbering convention are consistent with the classification and numbering of appendices in IPSAS. This reclassification and renumbering of appendices in the PSA Handbook is part of implementing the Board's International Strategy. The Board had proposed these changes in its Exposure Draft, "[2022-2023 Annual Improvements to Public Sector Accounting Standards](#)." As responses to that document were generally supportive, the Board approved the amendments, including those related to the reclassification and renumbering of appendices.

Issuing the reclassification and renumbering changes in the PSA Handbook set out in Appendix A has been deferred pending public input on the proposed changes to the GAAP level designation of four appendices presented in this narrow-scope amendment Exposure Draft. The changes outlined in Appendix A will be issued at the same time as the final PSA Handbook amendments arising from this Exposure Draft.

## Implications of the proposals

### Immediate effects

Entities adopting Section PS 3400, for fiscal years beginning on or after April 1, 2023, should consider Appendix A – already identified as integral to the standard – as comprising level (i) GAAP and apply the standard accordingly.

Note that any glossary accompanying a standard is considered integral to that standard. It is not an appendix. Its location is to improve the flow of the standard; definitions would otherwise be included in the main body of the standard. The definitions included in a glossary are necessary to apply the related standard, as are those in the main body of a standard. PSAB does not anticipate any change in practice from clearly identifying glossaries in the PSA Handbook as integral to the related standard or from clarifying their designation as level (i) GAAP.

### Future effects

Should the change in the GAAP level designation of an appendix create a change in practice for a public sector entity, that change in practice would be effective for fiscal years beginning on or after April 1, 2026. Entities would have to evaluate their accounting policies in relation to the use of the four appendices for which the GAAP level has been elevated to determine if the greater weight under GAAP given to the appendices would change how they apply the four standards.

Entities may have to reconsider their accounting policy for operating leases, replacing any policy that is in accordance with former Section 3065 of Part V of the Handbook with an entity-developed accounting policy using the definition and guidance in [Section PS 1150](#) and the related guidance in ACCOUNTING CHANGES, [Section PS 2120](#), in the PSA Handbook.<sup>2</sup>

2 New guidance was added on entity-developed accounting policies through consequential amendments to [Section PS 1150](#) and [Section PS 2120](#) as a result of PSAB issuing FINANCIAL STATEMENT PRESENTATION, [Section PS 1202](#) in October 2023. Guidance regarding entity-developed accounting policies is set out in [paragraph PS 1150.03\(b\)](#) and paragraphs [PS 1150.28-.30](#), and also in [paragraphs PS 2120.36-.40](#). Given that these consequential amendments are effective at the same time as the [Conceptual Framework](#) and Section PS 1202, PSAB chose to propose an effective date for the change to [Appendix B](#) to PSG-2 that is the same effective date (i.e., April 1, 2026) as the [Conceptual Framework](#) and Section PS 1202.

## Comments requested

While PSAB welcomes comments on any or all the proposals in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. Do you agree with the GAAP designation proposed for the four appendices?
2. Will the change in the GAAP level designation from (iii) to (i) of the four appendices identified in the Exposure Draft comprise a change in practice for your organization or clients?
3. Do you agree with the proposed effective date of April 1, 2026, for the changes in the GAAP level designation of the four appendices?
4. Do you agree with the proposed deletion of the outdated cross-reference in Appendix B to PSG-2?
5. Do you agree with the effective date of April 1, 2026, for an entity to implement a new entity-developed accounting policy for operating leases?

**This Exposure Draft closes for comment on April 11, 2024.**

## PROPOSALS

### Section PS 1150 generally accepted accounting principles

Section PS 1150 would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

...

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

...

- (d) **Primary sources of GAAP** are, in descending order of authority:
- (i) standards in Sections PS 1202-PS 3510, including all application guidance appendices, as they are identified as integral to the relevant pronouncement;
  - (ii) Public Sector Guidelines; and
  - (iii) ~~appendices and~~ illustrative material in appendices of those pronouncements described in (i)-(ii) above.

...

.16 Appendices are an integral part of the primary sources of GAAP.

- (a) Application guidance Appendices are integral to the related pronouncement and are considered a primary source of GAAP per paragraph PS 1150.03(d)(i). They explain how the requirements of a pronouncement would be applied to particular items, transactions or other events.
- (b) ~~Illustrative material included in Appendices that are not application guidance Appendices indicates how the accounting policies and disclosures specified in a document might be applied in particular situations or summarizes aspects of the underlying document pronouncement or provides examples to illustrate the pronouncement's requirements. Illustrative material Appendices are considered a primary source of GAAP per paragraph PS 1150.03(d)(iii). They have less authority than the main body of the pronouncement or any related application guidance Appendix.~~ Illustrative material includes an introductory statement specifying that it is illustrative only.

...

### Section PS 3400 revenue

Section PS 3400 would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

#### **APPENDIX A**

#### **APPLICATION GUIDANCE – APPLYING THE REQUIREMENTS**

This Appendix is an integral part of this Section and is therefore a primary source of GAAP identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(i).

...

## Section PS 3410 government transfers

Section PS 3410 would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

### APPENDIX B

#### **APPLICATION GUIDANCE – DISTINGUISHING TYPES OF TRANSFERS**

This Appendix is an integral part of this Section and is therefore a primary source of GAAP identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(i).

#### Entitlements

...

## Section PS 3450 financial instruments

Section PS 3450 would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

### APPENDIX A

#### **APPLICATION GUIDANCE – APPLYING THE REQUIREMENTS**

This Appendix is an integral part of this Section and is therefore a primary source of GAAP identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(i).

...

## Section PS 4270 disclosure of allocated expenses by not-for-profit organizations

Section PS 4270 would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

### APPENDIX A

#### **APPLICATION GUIDANCE**

This ~~Application Guidance Appendix~~ is an integral part of this Section and is therefore a primary source of GAAP identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(i). It is applicable to an organization that chooses to classify its expenses by function.

...

In 2022, PSAB chose Option 2 as its approach to implementing its Government Not-For-Profit (GNFP) Strategy. “Option 2 – Public Sector Accounting Standards (PSAS) incorporating the PS 4200 series with potential customizations” is described in Consultation Paper II, “PSAB’s Government Not-for-Profit Strategy.” Section PS 4270 will be considered as a part of implementing the GNFP Strategy. In the meantime, the Board decided that updating the GAAP designation of Appendix A to Section PS 4270, consistent with other appendices in the PSA Handbook, was appropriate.

**accounting guideline**

**PSG-2**

**leased tangible capital assets**

PSG-2, Appendix B, Decision Tree, final box, would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

**APPENDIX B  
DECISION TREE – LEASED TANGIBLE CAPITAL ASSETS**

...

Then account for the lease  
as an operating lease, ~~in  
accordance with LEASES,  
CPA CANADA HANDBOOK –  
ACCOUNTING Section 3065~~



## APPENDIX A

### Amendments approved by PSAB to align classification and numbering of existing appendices in the PSA Handbook with categories of guidance used in IPSAS

Currently, the PSA Handbook includes additional guidance (e.g., decision trees, illustrative examples, etc.) in appendices to individual standards. With PSAB's new [International Strategy](#) decision, and after considering feedback to its Exposure Draft, "[2022-2023 Annual Improvements to Public Sector Accounting Standards](#)," the Board proposes to amend PSA Handbook appendices to align the classification and paragraph-numbering convention in each PSA Handbook appendix with those used in International Public Sector Accounting Standards (IPSAS). This primarily relates to specifically outlining whether an appendix comprises application guidance that is integral to the standard or illustrative material (e.g., decision trees, illustrative examples and illustrative sets of financial statements) that is not integral to the standard. These changes are editorial only and are not intended to change how these appendices are interpreted or used. Clarifications of the GAAP designation of four application guidance appendices are proposed in this Exposure Draft, as well as related changes to [Section PS 1150](#).

The following changes for the reclassification and renumbering of PSA Handbook appendices were approved by PSAB in December 2022 after considering the feedback to the Exposure Draft, "2022-2023 Annual Improvements to Public Sector Accounting Standards." They reclassify appendices as application guidance (AG) or illustrative examples (IE), with renumbering of the paragraphs therein as AG or IE, as appropriate:

| Standard/<br>Guideline                                      | Appendix   | Integral to<br>standard? | Update<br>appendix<br>to note as<br>integral? | New<br>designation                         | Paragraphs<br>renumbered<br>as        |
|---|--|--------------------------|---|--|---------------------------------------|
| Introduction  | A – Decision Tree  | No                       | No –<br>illustrative                          | No change;<br>remains<br>illustrative (IE) | N/A – no<br>paragraph<br>numbers used |
| RELATED PARTY<br>DISCLOSURES,<br>Section PS 2200            | A – Decision<br>Tree – Scope of<br>Applicability                   | No                       | No –<br>illustrative                          | No change;<br>remains<br>illustrative (IE) | N/A – no<br>paragraph<br>numbers used |
| BASIC<br>PRINCIPLES OF<br>CONSOLIDATION,<br>Section PS 2500 | A – Decision Tree<br>– Government<br>Reporting Entity<br>Framework | No                       | No –<br>illustrative                          | No change;<br>remains<br>illustrative      | N/A – no<br>paragraph<br>numbers used |
| LOANS<br>RECEIVABLE,<br>Section PS 3050                     | A – Decision Tree –<br>Loans                                       | No                       | No –<br>illustrative                          | No change;<br>remains<br>illustrative      | N/A – no<br>paragraph<br>numbers used |
| INTERESTS IN<br>PARTNERSHIPS,<br>Section PS 3060            | A – Spectrum –<br>Types of Contractual<br>Arrangements             | No                       | No – illustrative                             | No change;<br>remains<br>illustrative      | N/A – no<br>paragraph<br>numbers used |

| Standard/<br>Guideline  | Appendix   | Integral to<br>standard? | Update<br>appendix<br>to note as<br>integral?  | New<br>designation                        | Paragraphs<br>renumbered<br>as        |
|---|--|--------------------------|--|---|---------------------------------------|
| PUBLIC PRIVATE<br>PARTNERSHIPS,<br>Section PS 3160  | A – Decision Tree<br>– Public Private<br>Partnerships      | No                       | No – illustrative  | No change;<br>remains<br>illustrative     | N/A – no<br>paragraph<br>numbers used |
|   | B – Illustrative<br>Examples                               | No                       | No – illustrative  | No change;<br>remains<br>illustrative(IE) | B1-B47<br>changed to<br>IE1-IE47      |
| LIABILITIES,<br>Section PS 3200   | Decision Tree –<br>Obligations                             | No                       | No – illustrative.<br>Identify as<br>“Appendix A”<br>to be consistent<br>with other<br>appendices. | No change;<br>remains<br>illustrative     | N/A – no<br>paragraph<br>numbers used |
| ASSETS,<br>Section PS 3210  | A – Decision<br>Tree – Economic<br>Resources               | No                       | No – illustrative  | No change;<br>remains<br>illustrative     | N/A – no<br>paragraph<br>numbers used |
| RETIREMENT<br>BENEFITS,<br>Section PS 3250  | Glossary   | Yes                      | Yes – note as<br>integral to the<br>standard   | N/A – remains<br>as Glossary              | N/A                                   |
|   | A – Schematic –<br>Limit on Accrued<br>Benefit Asset       | No                       | No – illustrative  | No change;<br>remains<br>illustrative     | N/A – no<br>paragraph<br>numbers used |
|   | B – Illustrative<br>Examples                               | No                       | No – illustrative  | No change;<br>remains<br>illustrative     | N/A – no<br>paragraph<br>numbers used |
| POST-<br>EMPLOYMENT<br>BENEFITS<br>COMPENSATED<br>ABSENCES AND<br>TERMINATION<br>BENEFITS,<br>Section PS 3255 | A – Chart –<br>Characteristics of<br>Benefit Plans         | No                       | No – illustrative  | No change;<br>remains<br>illustrative     | N/A – no<br>paragraph<br>numbers used |
|   | B – Illustrative<br>Example                                | No                       | No – illustrative  | No change;<br>remains<br>illustrative     | N/A – no<br>paragraph<br>numbers used |
| LIABILITY FOR<br>CONTAMINATED<br>SITES, Section<br>PS 3260  | Glossary   | Yes                      | Yes – note as<br>integral to the<br>standard   | N/A – remains<br>as Glossary              | N/A                                   |
|   | A – Decision<br>Tree – Liability for<br>Contaminated Sites | No                       | No – illustrative  | No change;<br>remains<br>illustrative     | N/A – no<br>paragraph<br>numbers used |
|   | B – Illustrative<br>Examples                               | No                       | No – illustrative  | No change;<br>remains<br>illustrative     | B1-B23<br>changed to<br>IE1-IE23      |

| Standard/<br>Guideline                                 | Appendix   | Integral to<br>standard? | Update<br>appendix<br>to note as<br>integral?   | New<br>designation                         | Paragraphs<br>renumbered<br>as        |
|--|--|--------------------------|---|--|---------------------------------------|
| ASSET<br>RETIREMENT<br>OBLIGATIONS,<br>Section PS 3280 | A – Decision<br>Tree – Scope of<br>Applicability | No                       | No – illustrative   | No change;<br>remains<br>illustrative      | N/A – no<br>paragraph<br>numbers used |
|  | B – Illustrative<br>Examples                     | No                       | No – illustrative   | No change;<br>remains<br>illustrative (IE) | B1-B11<br>changed to<br>IE1-IE11      |
| REVENUE,<br>Section PS 3400                            | A – Applying the<br>Requirements                 | Yes                      | No change<br>required.<br>Appendix<br>already notes<br>that it is an<br>integral part<br>of Section PS<br>3400. | Application<br>guidance                    | A1-A41<br>changed to<br>AG1-AG41      |
|  | B – Framework<br>Overview                        | No                       | No – illustrative   | No change;<br>remains<br>illustrative      | N/A – no<br>paragraph<br>numbers used |
|  | C – Illustrative<br>Examples                     | No                       | No – illustrative   | No change;<br>remains<br>illustrative      | C1-C48<br>changed to<br>IE1-IE48      |
| GOVERNMENT<br>TRANSFERS,<br>Section PS 3410            | Glossary   | Yes                      | Yes – note as<br>integral to the<br>standard  | N/A – remains<br>as Glossary               | N/A                                   |
|  | A – Decision Tree –<br>Recognition               | No                       | No – illustrative   | No change;<br>remains<br>illustrative      | N/A – no<br>paragraph<br>numbers used |
|  | B – Distinguishing<br>Types of Transfers         | Yes                      | Yes – note that<br>this appendix<br>is application<br>guidance and<br>integral to the<br>standard               | Application<br>guidance                    | B1-B20<br>changed to<br>AG1-AG20      |
| FINANCIAL<br>INSTRUMENTS,<br>Section PS 3450           | Glossary   | Yes                      | Yes – note as<br>integral to the<br>standard  | N/A – remains<br>as Glossary               | N/A                                   |
|  | A – Applying the<br>Requirements                 | Yes                      | No change<br>required.<br>Appendix<br>already notes<br>that it is an<br>integral part<br>of Section PS<br>3450. | Application<br>guidance                    | A1-A76<br>changed to<br>AG1-AG76      |

| Standard/<br>Guideline   | Appendix   | Integral to<br>standard? | Update<br>appendix<br>to note as<br>integral?   | New<br>designation                    | Paragraphs<br>renumbered<br>as        |
|--|--|--------------------------|---|---------------------------------------|---------------------------------------|
| TAX REVENUE,<br>Section PS 3510  | A – Decision Tree<br>– Transfers Made<br>Through a Tax<br>System and Tax<br>Concessions  | No                       | No – illustrative   | No change;<br>remains<br>illustrative | N/A – no<br>paragraph<br>numbers used |
| FINANCIAL<br>STATEMENT<br>PRESENTATION<br>BY NOT-FOR-<br>PROFIT<br>ORGANIZATIONS,<br>Section PS 4200         | A – Illustrative<br>Examples   | No                       | No – illustrative   | No change;<br>remains<br>illustrative | N/A – no<br>paragraph<br>numbers used |
| CONTRIBUTIONS<br>– REVENUE<br>RECOGNITION,<br>Section PS 4210  | A – Decision Trees   | No                       | No – illustrative   | No change;<br>remains<br>illustrative | N/A – no<br>paragraph<br>numbers used |
| REPORTING<br>CONTROLLED<br>AND RELATED<br>ENTITIES BY<br>NOT-FOR-PROFIT<br>ORGANIZATIONS,<br>Section PS 4250 | A – Decision<br>Tree – Reporting<br>of Controlled<br>and Significantly<br>Influenced Not-For-<br>Profit Organizations<br>and Economic<br>Interests in Not-For-<br>Profit Organizations | No                       | No – illustrative   | No change;<br>remains<br>illustrative | N/A – no<br>paragraph<br>numbers used |
|  | A – Decision<br>Tree – Reporting<br>of Controlled<br>and Significantly<br>Influenced Profit-<br>oriented Enterprises   | No                       | No – illustrative   | No change;<br>remains<br>illustrative | N/A – no<br>paragraph<br>numbers used |
|  | B – Illustrative<br>Examples   | No                       | No – illustrative   | No change;<br>remains<br>illustrative | N/A – no<br>paragraph<br>numbers used |
| DISCLOSURE<br>OF ALLOCATED<br>EXPENSES BY<br>NOT-FOR-PROFIT<br>ORGANIZATIONS,<br>Section PS 4270             | A – Application<br>Guidance  | Yes                      | No. Appendix<br>already notes<br>that it is an<br>integral part<br>of Section PS<br>4270. | Application<br>guidance               | A1-A9<br>changed to<br>AG1-AG9        |
|  | B – Illustrative<br>Examples   | No                       | No – illustrative   | No change;<br>remains<br>illustrative | N/A – no<br>paragraph<br>numbers used |

| Standard/<br>Guideline  | Appendix   | Integral to<br>standard? | Update<br>appendix<br>to note as<br>integral?   | New<br>designation                    | Paragraphs<br>renumbered<br>as        |
|---|--|--------------------------|---|---------------------------------------|---------------------------------------|
| PSG-2, Leased<br>Tangible Capital<br>Assets   | A – Glossary   | Yes                      | Yes – note as<br>integral to the<br>guideline.<br>Now just<br>identified as<br>a glossary<br>(i.e., no “A”<br>designation). | N/A – remains<br>as Glossary          | N/A                                   |
|   | B – Decision Tree –<br>Leased Tangible<br>Capital Assets | No                       | No – illustrative   | No change;<br>remains<br>illustrative | N/A – no<br>paragraph<br>numbers used |
| PSG-5, Sale<br>Leaseback<br>Transactions  | A – Decision Trees                                       | No                       | No – illustrative   | No change;<br>remains<br>illustrative | N/A – no<br>paragraph<br>numbers used |
|   | B – Illustrative<br>Examples                             | No                       | No – illustrative   | No change;<br>remains<br>illustrative | N/A – no<br>paragraph<br>numbers used |
| Statement of<br>Recommended<br>Practice 3,<br>ASSESSMENT<br>OF TANGIBLE<br>CAPITAL ASSETS | Glossary   | Yes                      | Yes – Note as<br>integral to the<br>SORP  | N/A – remains<br>as Glossary          | N/A                                   |
|   | A – Illustrative<br>Examples                             | No                       | No – illustrative   | No change;<br>remains<br>illustrative | N/A – no<br>paragraph<br>numbers used |

Note: Illustrative material appendices will be identified as illustrative only, and it will be noted that matters of principle are to be decided in accordance with the requirements of the related pronouncement.

# BASIS FOR CONCLUSIONS

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## Introduction

- BC.01 This Basis for Conclusions summarizes the considerations PSAB made in drafting the Exposure Draft, “Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices.”
- BC.02 Prior to approving a final standard, PSAB will review and deliberate responses to the Exposure Draft.
- BC.03 These changes would apply to all public sector entities applying the standards referenced in the Exposure Draft.

## 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:
- (a) The classification and renumbering of appendices PSAB approved in December 2022 as part of the 2022-2023 annual improvements represent a structural aspect of implementing the Board’s International Strategy.
  - (b) These changes provide clarity about the GAAP designation of PSA Handbook appendices, which is important for applying the standards and guidelines.

## GAAP Designation of Appendices

- BC.05 The PSA Handbook currently includes 64 appendices across all standards and guidelines; 14 of those were issued in October 2023 as part of FINANCIAL STATEMENT PRESENTATION, [Section PS 1202](#), and were already approved by PSAB to conform to the proposals in this Exposure Draft. The remaining 50 appendices were the subject of proposals in the Exposure Draft, “2022-2023 Annual Improvements to Public Sector Accounting Standards.”
- BC.06 In terms of the GAAP level assigned to appendices, existing [paragraph PS 1150.16](#) classifies all appendices as illustrative. This means that currently, all appendices are level (iii) GAAP as defined by the hierarchy of primary sources of GAAP set out in [paragraph PS 1150.03\(d\)](#):

**Primary sources of GAAP** are, in descending order of authority:

- (i) standards in Sections PS 1202-PS 3510;
- (ii) Public Sector Guidelines; and
- (iii) appendices and illustrative material of those pronouncements described in (i)-(ii) above.

- BC.07 The Exposure Draft, "[2022-2023 Annual Improvements to Public Sector Accounting Standards](#)" proposed to update the classification and numbering, of existing appendices in the PSA Handbook to align with that in the International Public Sector Accounting Standards (IPSAS). This change was proposed to ensure consistent classification and numbering of similar categories of guidance should PSAB adapt IPSAS principles set out in Appendices in developing Canadian standards in the future. The Board clarified that the changes to the classification and numbering in appendices were editorial only and did not change the application of the PSA Handbook appendices nor did they incorporate material from IPSAS appendices.
- BC.08 In the Exposure Draft, "[2022-2023 Annual Improvements to Public Sector Accounting Standards](#)," PSAB had proposed to classify appendices as application guidance (AG) or illustrative examples (IE), with appropriate renumbering of the paragraphs therein as AG or IE. These changes were editorial. Respondents to the "2022-2023 Annual Improvements" generally supported the classification and renumbering of appendices. At its December 2022 meeting, the Board approved these changes as part of finalizing the "2022-2023 Annual Improvements" amendments for inclusion in the PSA Handbook. These changes have not yet been issued in the PSA Handbook, as the Board requested that they be issued at the same time as any changes to the GAAP designation of appendices resulting from this Exposure Draft. The changes approved in December 2022 are summarized in [Appendix A](#) above in this Exposure Draft.
- BC.09 In the Exposure Draft, "[2022-2023 Annual Improvements to Public Sector Accounting Standards](#)," PSAB had also proposed minor amendments to [Section PS 1150](#) to clarify the level of GAAP that each type of appendix would be assigned, with some proposed to move to level (i) GAAP. Respondents to the "2022-2023 Annual Improvements" expressed concern regarding the change to the GAAP level designation for some appendices, indicating that:
- (a) identifying some application guidance appendices as integral to a standard and assigning them as level (i) GAAP (see [paragraph PS 1150.03\(d\)\(i\)](#)), while other application guidance appendices would remain as level (iii) GAAP was confusing; and
  - (b) elevating some appendices from level (iii) to level (i) GAAP might be a change in practice, so they might not meet the annual improvement definition.
- BC.10 PSAB agreed with the concerns and developed the Exposure Draft, "Narrow-scope Amendment: GAAP Designation of PSA Handbook Appendices" to address them.
- BC.11 In March 2023, PSAB approved the appendices of [Section PS 1202](#). The application guidance appendix was identified as integral to the standard and designated as level (i) GAAP, consistent with the standard to which it is integral. All other appendices, including decision trees, illustrative examples and illustrative financial statements, were designated as illustrative and level (iii) GAAP. [Appendix A](#) to this Exposure Draft describes the classification and renumbering that PSAB approved for the 50 appendices of various standards and Guidelines in December 2022. This Exposure Draft applies the principles, which the Board approved for Section PS 1202, to the four appendices that require confirmation as integral to a standard and that require a change in GAAP designation from level (iii) GAAP to level (i):
- (a) Appendix A to Section PS 3400;
  - (b) Appendix B to Section PS 3410;
  - (c) Appendix A to Section PS 3450; and
  - (d) Appendix A to Section PS 4270.
- BC.12 Of the four appendices addressed in this Exposure Draft, only Appendix B to Section PS 3410 is not already identified as integral to the standard. However, PSAB's intent in approving this guidance was that it is integral to the standard. The superseded [Section PS 3410](#) included guidance for specific types of transfers in the main body of the standard. For the revised

Section PS 3410, the Board chose to include the key principles in the main body of the standard and the application guidance for particular types of transfers in an appendix.

- BC.13 The missing piece was clarifying what “integral to the standard” means. This Exposure Draft clarifies that “integral to the standard” means that any application guidance appendices are level (i) GAAP. All existing application guidance appendices have been evaluated to ascertain if this conclusion is appropriate and PSAB concluded it was. Application guidance appendices are more than just illustrative; they assist in understanding and applying the principles in the main body of a standard, often to specific types of the item, transaction or other event that is the subject of the standard. So, this Exposure Draft proposes that the text in Section PS 1150 indicating that all appendices are illustrative be amended to clarify the GAAP status of application guidance appendices.

## PSG-2, Leased Tangible Capital Assets, Appendix B

- BC.14 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 proposes to implement the change.
- BC.15 The [decision tree](#) in Appendix B to PSG-2 indicates that operating leases must be accounted for in accordance with the former Section 3065 in Part V of the Handbook. 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, in particular a framework that no longer exists.
- BC.16 PSAB concluded the issue should be resolved by deleting the 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. No specific cross-reference would replace the deleted text. So, an entity would then use the GAAP hierarchy in [Section PS 1150](#) to determine the appropriate accounting for operating leases, as the PSA Handbook does not include a standard dealing with the topic.
- BC.17 This change may create the need for an updated entity-developed accounting policy for operating leases for some entities. PSAB included guidance for updating entity-developed accounting policies in [Section PS 1150](#) and [Section 2120](#) as consequential amendments of issuing Section PS 1202. So, the Board concluded it was appropriate to propose the same effective date as Section PS 1202 for any required change in accounting policy for operating leases resulting from the narrow-scope amendment proposed in this Exposure Draft.



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