

Exploring PSAB's Exposure Draft, “Financial Statement Presentation, Proposed Section PS 1202”

The PSA Handbook is the primary authoritative source of public sector GAAP.

The opinions stated in the presentation are those of the author and do not necessarily reflect the views of PSAB. Official positions of PSAB are established only after extensive public due process.

Agenda

- ✓ Highlights of proposals for a revised financial statement presentation standard

- What's new?

- ✓ Effects



Concepts Underlying Financial Performance Task Force

Nickie Young (Chair), Professor Emerita, Saint Mary's University, Nova Scotia

Tim Beauchamp, Consultant, Former Director PSA Standards

Pete DeVries, Retired, Dept. of Finance, Canada

Paula Jesty, Retired, Partner, Deloitte

Brad Klaiber, Director, Financial Reporting, University of Calgary

Merwan Saher, Retired, Auditor General, Alberta

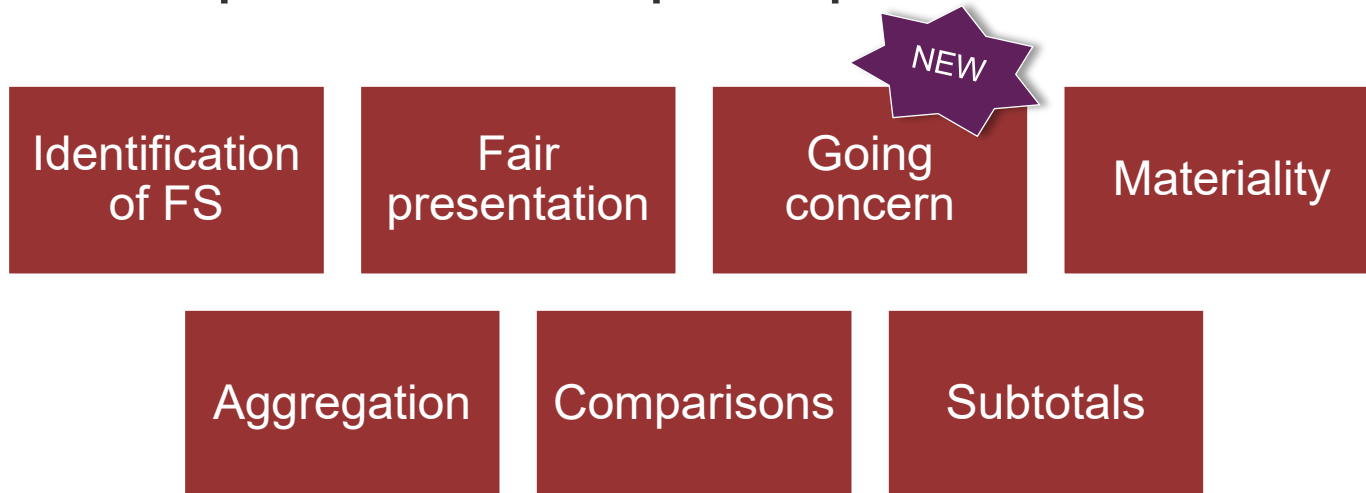
Cindy Veinot, Former Comptroller General, Ontario

Cheryl Wenezenki-Yolland, Consultant (former Associate DM Finance, British Columbia)

Bill Matthews, Deputy Minister of Public Services and Procurement and Deputy Receiver General of Canada

Components of the Proposed Financial Statement Presentation Standard

- General presentation principles



- Meeting the financial statement objectives
 - Reporting model



Going Concern

- Grounded in the Canadian public sector environment
- Provides considerations re: different types of public sector entities
 - different types of governments
 - governments versus government organizations
- Covid-19 considerations not mentioned
 - but all items affecting financial performance would be considered



Meeting the Financial Statement Objectives



The Journey

Consultation
Paper 1:
Characteristics of
Public Sector
Entities

Consultation
Paper 3:
Conceptual
Framework
Fundamentals
and the
Reporting
Model

Consultation
Paper 2:
Measuring
Financial
Performance in
Public Sector
Financial
Statements

Statement
of Principles
for a
Revised
Reporting
Model

Proposed Changes to the Reporting Model

Relocate net debt
to own statement

Financial and non-
financial liabilities

NEW

Restructured
statement of
financial position

New 3rd component
of net assets:
accumulated other

Amended non-
financial asset
definition

NEW

Revised net debt
calculation

NEW

Remove statement
of change in net
debt

New statement of
change in net
assets

NEW

New budget
requirements

Proposed Statement of Financial Position

- Net debt relocated to its own statement
- New categories of financial and non-financial liabilities
- Restructured statement
- 3rd component of net assets added
- New non-financial asset definition

Statement of Financial Position as at March 31

	20X3	20X2
Financial assets	XX	XX
Non-financial assets	XX	XX
Total assets	<u>XX</u>	<u>XX</u>
Financial liabilities	XX	XX
Non-financial liabilities	XX	XX
Total liabilities	<u>XX</u>	<u>XX</u>
Net assets (net liabilities)	<u><u>XX</u></u>	<u><u>XX</u></u>
Net assets (net liabilities) components:		
accumulated surplus/deficit	XX	XX
accumulated remeasurements	XX	XX
accumulated other	XX	XX
	<u>XX</u>	<u>XX</u>

New Categories

New Component

Relocating Net Debt to its Own Statement



WHY?

- Creates opportunity to make the indicator more understandable to users
- Displays the indicator more prominently
- Provides opportunity to explain change in net debt
- Entity narrative on indicator focuses on one statement

Net Debt Indicator

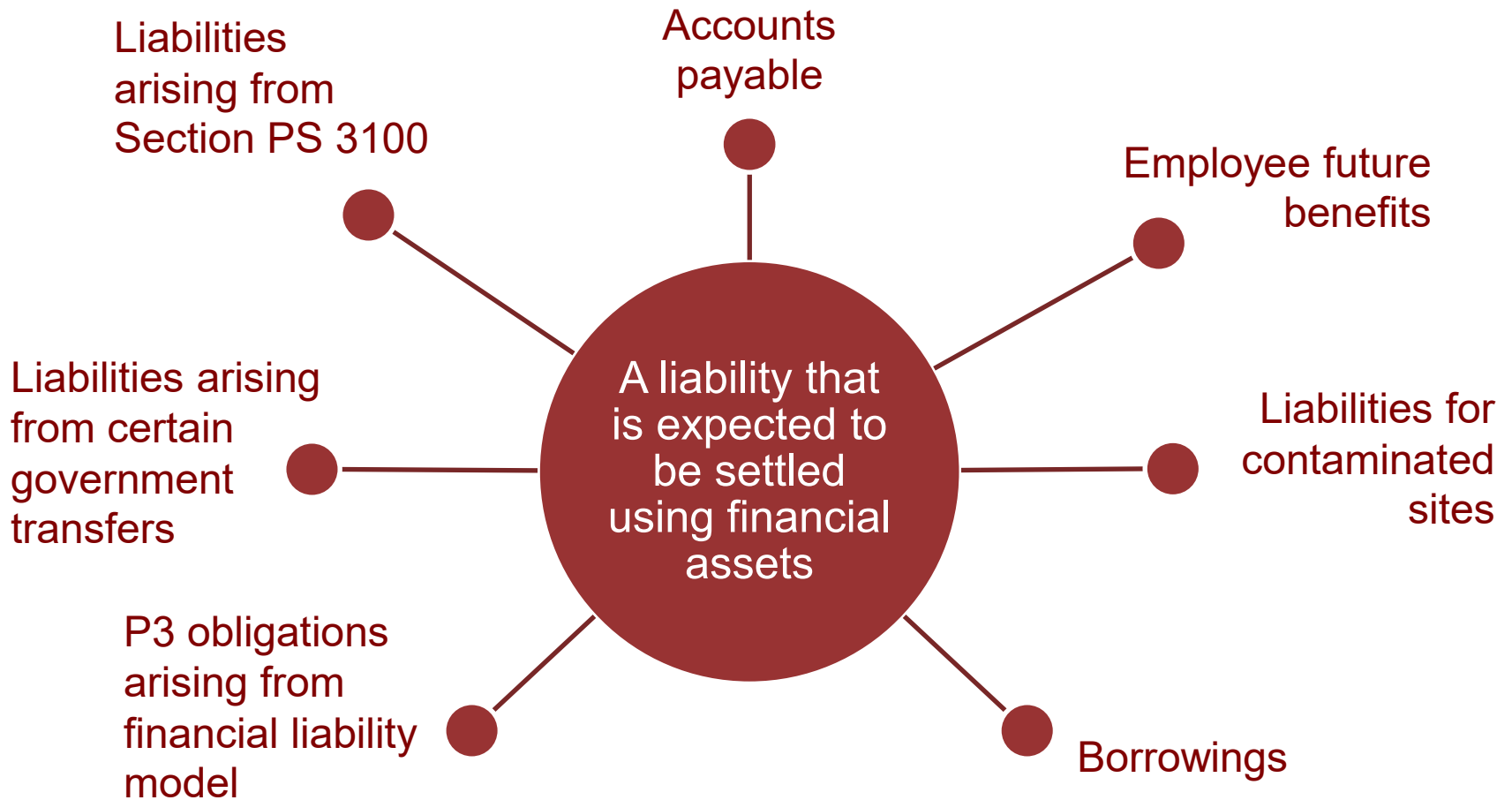
- Provides information about future financial resources required
 - To assess fiscal sustainability
- Key affordability measure
 - Created by past activities
- Not just about debt

Financial and Non-Financial Liabilities

Why?

- Refine the net debt calculation
 - Remove liabilities that don't represent future financial resource requirements

Financial Liabilities



Non-Financial Liabilities

A liability that cannot be settled through the use of financial assets but only through the use of non-financial assets or economic resources excluded from recognition

Liabilities settled through the use of a tangible capital asset acquired through a transfer

P3 obligations arising from user pay model

Non-financial performance obligations to provide access

Classification of Liabilities from Government Transfers Received

- Operating transfer → Financial liability
- Capital transfer for acquiring or developing a TCA (no further stipulations) → Financial liability
- Transfer of a TCA that must be used to provide future services → Non-financial liability
- Capital transfer for acquiring or developing a TCA that must be used to provide future services → Financial liability then non-financial liability

Capital Transfers to Build and Use

Receipt of transfer:

Dr. Cash	300	
		Cr. Financial Liability 300

Each of Years 1-3 over the 3 years as the asset is built:

Dr. Tangible Capital Asset	100	
		Cr. Cash 100

Dr. Financial Liability	100	
		Cr. Non-financial liability 100

From Year 4 onwards, each year over 30 years as asset is used to provide services:

Dr. Non-Financial Liability	10	
		Cr. Revenue 10

Restructured Statement of Financial Position

		20X3	20X2
Statement of Financial Position			
as at March 31			
		XX	XX
	Financial assets	XX	XX
	Non-financial assets	XX	XX
	Total assets	<u>XX</u>	<u>XX</u>
	Financial liabilities	XX	XX
	Non-financial liabilities	XX	XX
	Total liabilities	<u>XX</u>	<u>XX</u>
	Net assets (net liabilities)	<u>XX</u>	<u>XX</u>
	Net assets (net liabilities) components:		
	accumulated surplus/deficit	XX	XX
	accumulated remeasurements	XX	XX
	accumulated other	<u>XX</u>	<u>XX</u>
		<u>XX</u>	<u>XX</u>

New subtotal

New subtotal

New component

Accumulated Other

Why?

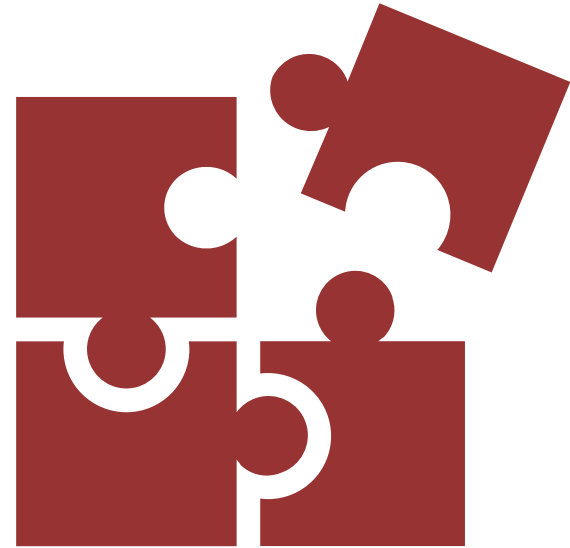
- To respond to users' needs
- Transparently reflect economic substance of unique transactions
- Improved accountability
- Financial position comprises only assets and liabilities

When?

- PSAB determines recognition of a revenue or expense in accumulated other provides better information for accountability purposes than recognition in surplus/deficit
- PSAB must document decision in Basis for Conclusions
- Standards-level decision

Accumulated Other

- **Only PSAB** designates transactions to component
- Only used in rare circumstances
- No transactions designated to component yet
- Possibility to rename or split component as transactions designated



Accumulated Other

Feedback Received

- Recognizing revenues and expenses outside of surplus or deficit should not be allowed
- Creates confusion
- Reduces transparency

Response

- Proposal is supported by accounting theory
- Surplus or deficit is default recognition location
- Proposal builds on existing reporting model
- It is the most understandable of all options reviewed
- The new statement of changes in net assets shows all revenues and expenses, including those recognized directly in net assets

New Non-financial Asset Definition

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead: (a) are normally employed to deliver government services; (b) may be consumed in the normal course of operations; and (c) are not for sale in the normal course of operations.



A non-financial asset is an asset that does not meet the definition of a financial asset.

Proposed Statement of Net Financial Assets (Net Financial Liabilities)

**Statement of Net Financial Assets
(Net Financial Liabilities)**
as at March 31

	20X3	20X2
Financial assets	XX	XX
Financial liabilities	XX	XX
Net financial assets (net financial liabilities)	XX	XX

Explanation of the meaning of the indicator is required

+ Option to include a calculation of the change in the above indicator plus the reasons for the change in the indicator

=

Option to control the narrative regarding the indicator and why it changed

Benefits

- ✓ Indicator can be better seen and understood
- ✓ Indicator's meaning must be explained
- ✓ Entity can focus its narrative on one statement to explain the indicator and the change in it
- ✓ PSAB can rename the indicator to reduce confusion
 - › “Net financial liabilities”

Proposed Statement of Operations

Statement of Operations for the year ended March 31			
	Budget	20X3	20X2
Revenue	XX	XX	XX
Expense (by function)	XX	XX	XX
Surplus (deficit)	XX	XX	XX

- ✓ Similar to existing statement of operations
- ✓ Default location for revenue and expense recognition
- ✓ Clarity on gross reporting vs gross disclosure



Proposed Statement of Changes in Net Assets (Net Liabilities)

- ✓ All revenues and expenses are reflected here
- ✓ Most revenue and expense will be recognized in surplus/deficit
- ✓ Only PSAB can designate a revenue or expense to be recognized in accumulated other or accumulated remeasurements

Statement of Changes in Net Assets (Net Liabilities)

for the year ended March 31

	20X3	20X2
Accumulated Surplus/Deficit		
Surplus (deficit)	XX	XX
Opening balance	XX	XX
Ending balance	XX	XX
Accumulated Remeasurements		
Change in remeasurements	XX	XX
Opening balance	XX	XX
Ending balance	XX	XX
Accumulated Other		
Change in accumulated other	XX	XX
Opening balance	XX	XX
Ending balance	XX	XX
Total Net Assets (Net Liabilities)	XX	XX

Budget Proposals – Scope

Feedback Received: 2018 proposals reduced accountability value of financial statements

- Financial statements should show a budget

Recommendation: Do scope reconciliation in the notes and present restated budget on the statement of operations



- Scope reconciliations include adding in approved budgets of controlled entities
- If no approved budget for any material, controlled entity, then note required

Budget Proposals – Summary

- Budget amounts presented using same basis, same principles, same scope and same classification as actuals
- Restate budget when different than actual
 - › Reconciliation in notes
- Note on the statements required when:
 - › Budget not prepared
 - › Budget not approved
 - › Budget for a material, controlled entity is not prepared or approved

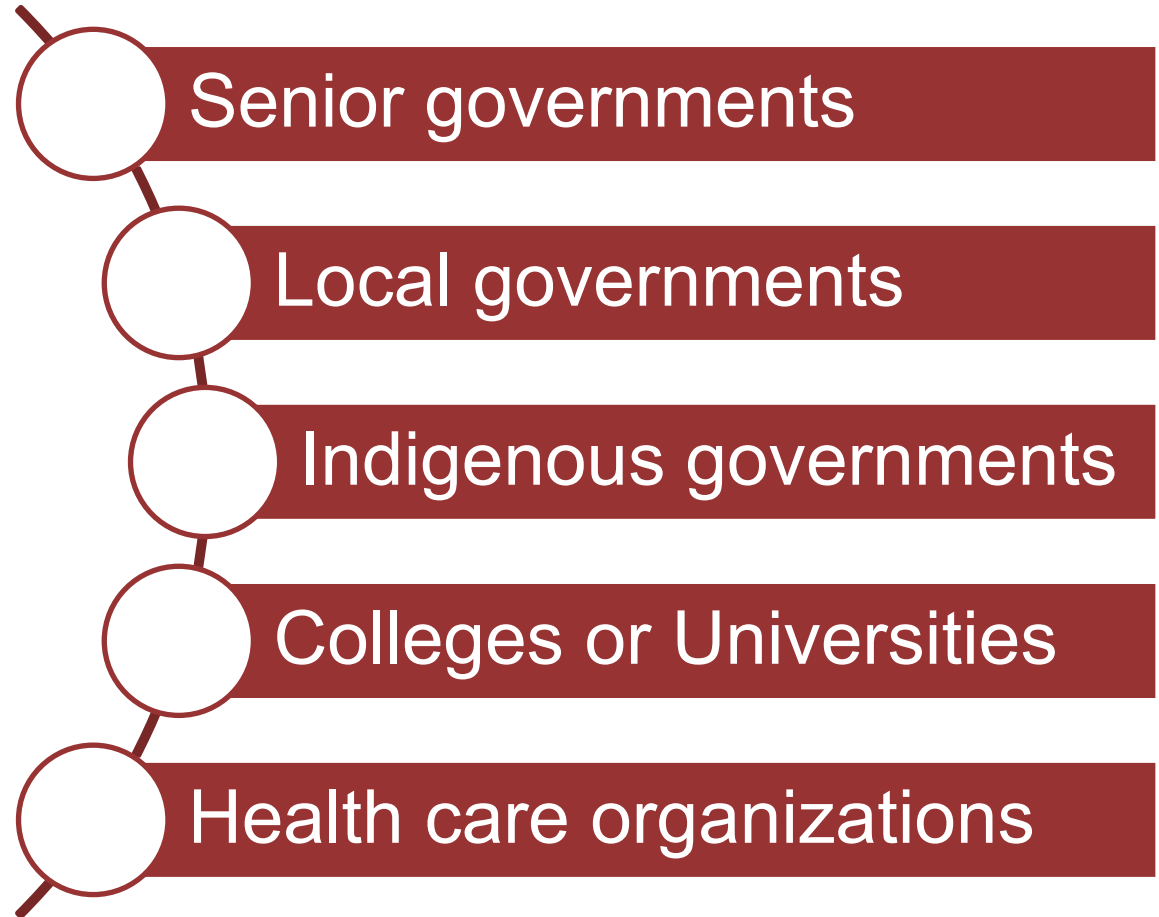


Use of Amended Budget

- FOR GOVERNMENT – when there is an election and new budget is approved
- FOR GOVERNMENT ORGANIZATION – when majority of governing body is elected or appointed and new budget is approved



Illustrative Financial Statements



The Way Forward...

- Grounded in the need for accountability
- In the public interest
- Considers the feedback received



Responsive and **responsible**

Effects of the Proposed Financial Statement Presentation Standard

**Effective for
periods on or
after April 1,
2024**



Do you agree with the effective date?

For Preparers

- Update financial systems
- Restructure F/S as needed
- Review notes and schedules (see CH 10 CF)

For Users

- More understandable financial statement information

Setting Future Standards - PSAB/IPSASB Reporting Model Comparison

Subject	IPSASB	PSAB
Statement of financial position	Current and non-current	Financial and non-financial
Statement of operations	Report expenses by function or nature	Report expenses by function
Statement of changes in net assets or net liabilities	Has columns for each net asset component	Each net asset component is stacked, starting with Accumulated S/D
Statement of cash flow	Shows operating, investing and financing activities	Shows operating, capital , investing and financing activities
Statement of net financial assets or net financial liabilities	No such statement as not a required indicator	Important indicator to present
Presentation of the approved budget	Required only if entity makes its budget publicly available	Required

Consequential Amendments

Objective

Consistency throughout the PSA Handbook.

Effects

Some are editorial in nature only and some change practice.

Timing of Application

Expected to be issued after Section PS 1202 is finalized.
Will be effective April 1, 2024.

- Withdrawal of the existing reporting model
- Amendments to references to the existing reporting model
- Acknowledging multiple components of net assets or net liabilities
- Amendments to references to net debt or change in net debt
- Amendments to references to statement of remeasurement gains and losses
- Recognizing financial and non-financial liabilities

Setting Accounting Standards, Together

- Commend deadline: May 12, 2021
- Submit your thoughts:
 - comment letter OR
 - Reporting Model Community Platform @ connect.frascanada.ca

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Connect.FRASCanada.ca is Canada's accounting and auditing standards boards' online community platform. It is an environment where we can connect with you, our stakeholders, to augment our other consultation practices, which include letters on our documents for comment, discussions at our in-person or virtual roundtables, surveys, and much more.

For standards to be effective, they must inspire trust. And trust is built on deep research and fact-based foundations for decision-making. Connect.FRASCanada.ca gives us another means – one that is online and easy to use – to seek your input.

Our due processes are built on a foundation to ensure that the broad and diverse feedback we need to set standards in the public interest is collected from stakeholders with various backgrounds and differing perspectives. With wide and varied involvement, we can consider differing concerns, distinct voices, and divergent opinions of those who will implement or be impacted by a new or revised standard.

We look forward to connecting with you.

Connect with us
Register today!



Augments other consultation practices



Considered part of due process



Online and easy to use

Additional Information

- Visit project web page @ FRASCanada.ca/public-sector/projects/underlying-performance
 - Reporting Model exposure draft and supporting materials
 - Conceptual Framework exposure draft and supporting materials
 - Consequential amendments exposure drafts and details
 - Webinar: *Exploring PSAB's Exposure Draft "The Conceptual Framework for Financial Reporting in the Canadian Public Sector"*

Questions





Thank You!

Contacts

Antonella Risi, CPA, CA

Principal, Public Sector Accounting Board

Phone: +1 (416) 204-3484

Email: arisi@psabcanada.ca

Martha Jones Denning, CPA, CA

Principal, Public Sector Accounting Board

Phone: +1 (416) 204-3288

Email: mjonesdenning@psabcanada.ca