

In Brief

A plain and simple overview of PSAB's recent decision on financial instruments – subsequent issues

This is an overview of a key PSAB decision made in March 2018 on the applicability of financial instruments, foreign currency, and related standards.

Decision	PSAB confirmed its support for the existing financial instruments and foreign currency translation standards. The Board extended the effective date of the standards to incorporate improvements based on feedback received during stakeholder consultations.
Implications	Effective April 1, 2021, all public sector entities following the CPA Canada Public Sector Accounting (PSA) Handbook will be required to adopt: <ul style="list-style-type: none"> • PS 1201, Financial Statement Presentation • PS 2601, Foreign Currency Translation • PS 3041, Portfolio Investments • PS 3450, Financial Instruments
Next steps	PSAB plans to issue an exposure draft to improve the transitional provisions for these standards and potentially address other non-hedge accounting issues before the effective date.

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What went into PSAB's decision?

“PSAB's decision balanced the need for accountability over financial instruments with the costs to implement a standard in a highly complex area.”

- **Charles-Antoine St-Jean,
PSAB Chair**

Since 2016, PSAB has worked closely with stakeholders to understand their hedging issues and evaluate a variety of alternatives.

PSAB believes its decision is in the public interest. The Board considered the need for accountability, the diverse hedging practices of its stakeholders, implementation costs, and all the feedback received since 2011 when the PS 3450 suite of standards was issued.

Obstacles to adding a separate hedge accounting option included:

- stakeholders across Canada have fundamental differences in defining what hedge accounting guidance should look like;
- stakeholder suggestions for specific rules conflict with PSAB's principles-based approach to standard setting; and
- stakeholders did not agree with international public sector proposals, which includes a comprehensive hedge accounting option.

While the PS 3450 suite of standards do not include a formal hedge accounting option, elements of hedge accounting are included. Adding hedge accounting similar to international financial instrument standards would have required substantial changes to the existing standards and imposed significant costs to implement for Canadian stakeholders.

The Board therefore made a decision that would work for the vast majority of its stakeholders. Addressing some of the non-hedge accounting issues raised during its stakeholder consultations will respond to stakeholder needs and improve the standard.

Financial instruments are complex. PSAB built a model customized to the diverse needs of Canadian stakeholders to provide accountability and transparency over financial instruments (including derivatives) while maintaining a good cost-benefit solution for stakeholders.

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What does this decision mean?

“Governments will report derivatives at their fair value. This represents an unprecedented level of transparency for the Canadian public sector.”

- **Michael A. Puskaric,**
PSAB Director

For all governments following the PSA Handbook, this decision means derivatives and equity instruments (traded in active markets) would be recognized at their fair value.

Fair value changes from year-to-year would be reported on a separate statement called the Statement of Remeasurement Gains and Losses. Foreign currency translation would be reported similarly.

This presentation ensures the annual surplus / deficit is not clouded with unrealized gains and losses related to investments, derivatives, or currency translation.

For public sector entities that have yet to adopt the standards, the effective dates have changed from April 1, 2019 to April 1, 2021 to allow PSAB the time to make certain improvements.

For government organizations that already adopted the standards, these narrow scope amendments would become effective April 1, 2021.

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When do these standards take effect?

The upcoming exposure draft aims to improve the standards based on feedback received during consultations with a variety of stakeholders.

Most government organizations already adopted the standards. Governments applying the PSA Handbook would adopt the following standards, effective April 1, 2021:

- PS 1201, Financial Statement Presentation
- PS 2601, Foreign Currency Translation
- PS 3041, Portfolio Investments
- PS 3450, Financial Instruments

While early adoption is permitted, stay tuned for an exposure draft issued for public comment asking for feedback on narrow scope amendments to the transitional provisions and potentially other items.

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Next steps

PSAB is currently investigating narrow scope amendments to these standards.

An exposure draft outlining the proposed amendments is planned in 2019.

Stay up to date on this project via the online project page.

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