

PUBLIC SECTOR ACCOUNTING DISCUSSION GROUP

REPORT ON THE PUBLIC MEETING

May 12, 2022

The Public Sector Accounting Discussion Group (the Group) is a discussion forum only. The Group's purpose is to support the Public Sector Accounting Board (PSAB) by enabling discussion in a public venue of issues arising from the application of the CPA Canada Public Sector Accounting (PSA) Handbook, as well as emerging issues and issues on which PSAB requests advice. The Group comprises members with various backgrounds who participate as individuals in the discussion. Any views expressed in the public meeting do not necessarily represent the views of the organization to which a member belongs or the views of the Board. The discussions of the Group do not constitute official pronouncements or authoritative guidance.

This document has been prepared by staff and is based on discussions during the Group's meeting.

Comments made in relation to the application of the PSA Handbook do not purport to be conclusions about acceptable or unacceptable application of the PSA Handbook. Only PSAB can make such a determination.

ITEMS PRESENTED AND DISCUSSED

The International Public Sector Accounting Standards Board (IPSASB) Consultation Paper on Sustainability Reporting

On May 9, 2022, the IPSASB issued its Consultation Paper, "[Advancing Public Sector Sustainability Reporting](#)," as a first step in its global consultation. The [Consultation Paper is open for public comment](#) until September 9, 2022.

This consultation responds to stakeholders' growing demand for guidance addressing the issues governments face related to climate change and supporting sustainable development. The input from the Group's discussion will inform PSAB's response to the IPSASB's [Consultation Paper](#) and provide valuable Canadian perspectives to the IPSASB as part of its four-month consultation. [PSAB's 2022-2027 Strategic Plan](#) sets out an objective to work with the IPSASB on areas of joint interest for the public sector, including relevant sustainability-related initiatives.¹ In line with this objective, Group members were asked to share their views, insights and considerations on the questions raised in the IPSASB's Consultation Paper.

¹ Key strategies in PSAB's 2022-2027 Strategic Plan include: developing relevant and high-quality accounting standards; enhancing relationships with stakeholders and other standard setters; and supporting forward-looking accounting and reporting initiatives, such as sustainability.

The Group was asked to consider the following preliminary views from the [Consultation Paper](#) and provide their thoughts:

- Global public sector sustainability guidance is needed and the IPSASB can use its experience, processes and relationships to develop such standards.
- The IPSASB should collaborate with other international bodies (i.e., the International Sustainability Standards Board (ISSB)) to develop the general requirements for sustainability- and climate-related disclosures first.
 - What other sustainability topics are important and why should these be prioritized?
- The [Consultation Paper](#) sets out several key enablers required to take forward development of global public sector sustainability guidance:
 - resources;
 - reference groups;
 - effective/efficient use of the IPSASB's time;
 - engagement with international standard setters; and
 - dialogue with national standard setters

Roundtable discussion of the IPSASB's Sustainability Reporting Consultation Paper

The Group supported the need for global sustainability reporting guidance specific for the public sector. The Group shared the view that the demand from stakeholders to develop such guidance is growing and that there is an opportunity to develop such standards to support public sector entities.

Group members gave the following reasons for their support:

- The environment is fundamental to quality of life and the [Consultation Paper](#) is an opportunity for the profession to contribute to the development and adoption of sustainability reporting standards that serve the public interest.
- Sustainability would lead into economic stability, social cohesion and quality of life, which are fundamental to public interest.
- All citizens have shared responsibility to protect the world's resources, such as air, land and water. Indigenous governments are public sector entities and Indigenous communities act as custodians of the environment and should be consulted in the development of public sector sustainability standards.
- The private and public sectors' responsibilities for sustainability and for addressing climate change in particular are different. Current sustainability guidance and projects for the private sector have an investor perspective as opposed to a multistakeholder perspective. The public sector regulates the private sector with respect to the environment, emissions, sustainability and other matters. But the public sector also has significant responsibilities of its own, including responding to multiple

stakeholders, building resilient infrastructure, protecting the environment, and stewarding lands, waters and air quality. Climate change can affect public sector assets, revenue streams, the entitlements of its citizens and government programs. So, sustainability reporting standards tailored to the public sector are needed.

- Without the establishment of standards, governments will remain reactive while the impacts from climate change persist. Having standards will compel public sector entities to gather data, measure that data against a standard, and plan infrastructure projects in line with long-term sustainability objectives.
- While the impacts of climate change are felt around the world, the public sector requires sustainability standards to begin reporting on such matters so that future impacts can be mitigated.

One Group member asked if there were any initial indications that some national governments are more likely than others to adopt the standards the IPSASB proposes in the [Consultation Paper](#). Countries may have different priorities, such as food insecurity in less-developed countries, which take precedence over sustainability and sustainability reporting. The submitters responded that it is difficult to predict which countries will adopt standards that are yet to be developed. However, countries having currently adopted International Public Sector Accounting Standards (IPSAS) may be a good indicator of which countries may be early adopters of the standards the IPSASB proposes in its Consultation Paper. Less-developed countries struggle with setting their own national standards and have shown preference for adopting IPSAS.

Two Group members asked about alignment with [United Nations Sustainable Development Goals \(SDGs\)](#) being important for sustainability reporting in the public sector. The submitters noted that SDGs do not resonate as much with [Organisation for Economic Co-operation and Development countries](#) given their level of development. However, one Group member indicated Indigenous governments would appreciate focus on the SDGs, which can be extended to Indigenous communities. In developed countries, there is a significant gap between the Indigenous experience and that of mainstream society. A Group member noted that the [ISSB's proposed standards](#) would appear to fall short on establishing standards that would fit well for national governments in terms of attaining the SDGs.

A Group member discussed the familial relationship between Indigenous peoples and the environment. They noted that Indigenous peoples are stewards of the environment and that Indigenous lands hold 80 per cent of the world's remaining biodiversity. A Group member cited article 32, paragraph 1 of the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)² It emphasizes that Indigenous communities must be engaged in the consultative process in determining and developing priorities and strategies for the development or use of their lands or territories and other resources. More generally, Group members agreed that engaging Indigenous peoples will be crucial to developing sustainability standards and they will need to be consulted early in the process.

Several municipalities in Canada have already begun reporting sustainability information accompanying their financial statements. The Government of Canada announced in February 2022 that Canada endorsed the framework of the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#) and will also

² Resolution adopted by the UN General Assembly on September 13, 2007, by which the Council adopted the text of the UNDRIP.

be joining the new [Task Force on Nature-related Financial Disclosures \(TNFD\)](#). So, there is already an appetite in Canada to move forward on sustainability-related reporting.

One Group member mentioned the significant differences between the impacts and considerations between the private and public sectors with respect to sustainability reporting. The role and responsibilities that governments hold differ from the expectations and objectives of private enterprises. While the ISSB's Exposure Drafts, "[\[Draft\] IFRS 1 General Requirements for Disclosure of Sustainability-related Financial Information](#)" and "[\[Draft\] IFRS 32 Climate-related Disclosures](#)" propose important guidance, members supported the IPSASB's [Consultation Paper](#) proposal to leverage progress and relationships of other bodies as well.

Most Group members noted that the IPSASB is well equipped to take the lead in creating and establishing public sector sustainability standards. The IPSASB has the expertise and experience to lead this project as it has a history in standard setting while collaborating with stakeholders from around the world.

One Group member noted that the project may require collaboration with other professionals, such as economists, engineers, actuaries, environmentalists and others, to ensure all issues and opportunities are considered.

Group members also shared the following items and topics for consideration in integrating financial reporting and sustainability standards:

- Assessing modifications to the Conceptual Framework and the reporting model that may be required for use when developing sustainability standards.
- Canada's natural capital landscape is significant (89 per cent of the land is under government entities' control and stewardship). The IPSASB's Natural Resources project is a good starting point for Canada. PSAB should begin to assess what modifications may be required to integrate the IPSASB's future natural resources standards into Canadian Public Sector Accounting Standards (PSAS).
- Impacts and considerations of sustainability standards on Indigenous communities are a priority focus in the development of sustainability standards.
- While most efforts seem focused on the reduction of carbon dioxide (Co2) emissions, some consideration must be given to the how methane gas emissions affects the environment and the climate.
- Good information is critical to informed decision making. Figure 5 of the [Consultation Paper](#) details the proposed framework.
- Beginning with general standards is a good idea. However, time is of the essence given the continued rate of climate change. There must be a balance between the speed at which sustainability standards are introduced and the level of quality and degree of consultation considered in developing such standards.
- Canada possesses many natural resources. Further consultation among Canadian stakeholders is welcomed as the development of sustainability standards evolve.

Ultimately, the Group acknowledged that global public sector sustainability guidance is needed. The IPSASB is well positioned to lead this work given its experience, processes and relationships already in place.

The Group agreed that the IPSASB should collaborate with and/or leverage the work of other international bodies, such as the ISSB, to develop general requirements for sustainability- and climate-related disclosures first. However, many Group members agreed that much of the ISSB's proposed guidance remains focused on investor needs and enterprise value, and that broader and public sector-specific guidance is needed.

Although the Group did not disagree with the key enablers listed in the [Consultation Paper](#), it did share several improvements that it would welcome. These improvements included involving Indigenous peoples, communities and governments throughout the consultative process.

The Group members noted that certainty regarding the proposed Canadian structure for addressing sustainability reporting may be important in providing input to the IPSASB's [Consultation Paper](#). The work of the [Independent Review of Canadian Standard Setting](#), the Committee's recommendation of a Canadian sustainability standards board, and PSAB's new [International Strategy](#) would all be factors in determining that structure in the coming months.

In closing, the submitters thanked Group members for sharing their thoughts, comments and perspectives. The IPSASB welcomed Group members to submit comments and respond to the [Committee's recommendation of a Canadian sustainability standards board](#) as the input is an important part of the consultative process. Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link.

Climate-related questions to ask under existing GAAP

The submission is positioned as an application of existing standards set out in the PSA Handbook because the questions considered the implications of climate change when applying existing standards.

Climate change may affect financial statements of public sector entities in several different ways. Uncertainties about climate-related risks and events may have implications for an entity's financial position and results, including cash flows, assets, liabilities, net debt, reserves, revenue streams and cost of capital.

In September 2019, Chartered Professional Accountants (CPA) Canada published, [Climate-related Issues: Questions to Ask Under Existing Public Sector Generally Accepted Accounting Principles \(GAAP\) and Statements of Recommended Practice \(SORPs\)](#). Produced with support from Natural Resources Canada's Climate Change Adaptation Program, the publication was considered part of the submission.

The submission asked the Group to discuss four questions:

1. To what extent does a public sector entity have a responsibility under existing GAAP to provide information in financial statements about climate change and the implications for its financial position and results?

2. If it has a responsibility to provide such information, how should an entity position climate-related information in the financial statements, especially in the notes and schedules? What climate-related information would an entity ideally include in its Financial Statement Discussion and Analysis (FSD&A)?³
3. What other questions should be asked under existing GAAP regarding the implications of climate change for financial statements?
4. Do you have any examples from, knowledge of, or experience with reporting of climate-related information in financial statements?

Group discussion

One Group member noted that assets and liabilities exist regardless of whether there is a specific standard on a topic. General standards on assets and liabilities being the “general application standards” are discussed in Topic C of this meeting. If one of the objectives of financial reporting is to provide good and relevant information, preparers should report climate-related matters that can reasonably be expected. The Group member added that while PSAS contains several specific standards for certain obligations, public sector entities have an obligation to report material facts including those involving climate change.

A question was also raised about the possibility of future constructive obligations for governments in relation to their responsibility to address climate change, assuming the obligations meet the liability definition and can be measured. Depending on the circumstances and degree of government commitment, promises with respect to climate-change mitigation, quality of drinking water and other matters (e.g., [UNDRIP](#) commitments) may create obligations that should be evaluated for meeting the liability definition.

Several Group members noted that the absence of a specific climate-related standard does not remove the responsibility of public sector entities to report, or at least disclose, such potential liabilities. Some Group members noted that impairment will likely become a more frequent occurrence as assets may be at risk because of climate change. Other Group members shared this perspective that, as service potential erodes, clean-up costs and other potential liabilities may arise in certain cases.

One Group member noted that while the private sector tends to be more profit driven, the public sector holds a significant amount of responsibility in how climate-related issues are addressed and reported. Governments have a social responsibility to steward the environment.

Several Group members noted that the FSD&A can be used more broadly to detail issues and expectations on climate change. An analysis of the variances and potential costs associated with climate change can be reported as part of the FSD&A. This would provide useful information to all stakeholders as to potential costs that can be assumed because of climate change.

³ For more information, see PSAB Statement of Recommended Practice (SORP) 1. SORPs are non-authoritative guidance established to set out best practice for reporting outside of financial statements when an entity chooses to do such reporting.

Group members shared information that could be reported in the FSD&A:

- risks and likelihood of climate-related events and projected costs;
- infrastructure needed to combat climate change;
- financial risks, and health risks (e.g., water quality, ecosystem health, etc.);
- potential impairments of, or obligations related to, specific assets impacted by climate change; and
- reports on climate-related initiatives and objectives to assist with the above.

A Group member noted the risk of waiting for specific climate-change standards before reporting information in financial statements and other financial reports. They mentioned that accountants tend to be overly focused on financial risks while not emphasizing other risks and responsibilities such as the upkeep of our environment and the wellbeing of our ecosystems.

One Group member provided a few examples of situations that may merit reporting of climate-related information in financial statements:

- Impacts of continued drought:⁴ Water levels at numerous lakes continue to reach new record lows, highlighting the ongoing severe drought experienced throughout several parts of the world. The Group members noted the significant impacts this has on the reservoirs. Many dams rely on the water flow to generate electricity and supply water to large cities and communities. A Group member said that such a significant event may permanently impair dams' service capacity and pose risk to maintaining sufficient water supply.
- Reducing coal-fired plants or ending coal production:⁵ A Group member said that provinces and communities are moving to phase out coal-fired electricity entirely. Such assets would likely be set aside as permanent impairments.
- Few examples exist since few regulations or policies relating to climate-change measures are in place.

A Group member referenced the topic of sustainable finance discussed at the [November 2019 Public Sector Accounting Discussion Group meeting](#). The federal government created an [Expert Panel on Sustainable Finance](#) to look at how the financial sector could help fight climate change by encouraging and directing funds toward initiatives that benefit the environment. The Group member noted that the report and materials shared at the November meeting discussed many opportunities to integrate the impacts of climate-change into financial reporting.

⁴ Water levels at Lake Mead, a reservoir formed by the Hoover Dam on the Colorado River, continue to hit lows as severe droughts continue to sweep through the western United States. This affects the dam's service potential. Gia Yetikyel, "Hoover Dam's Lake Mead Hits Lowest Water Level Since 1930s," [Smithsonian Magazine](#), June 18, 2021.

⁵ Read more on the Province of Ontario's elimination of coal-fired electricity: Government Ontario, "[End of Coal](#)," last modified August 23, 2021.

One Group member said that many Indigenous communities face emergencies resulting from climate change. Such issues have long-term financial and environmental impacts on Indigenous communities' wellbeing. Indigenous governments have broader responsibilities than other Canadian governments. They provide goods and service and have responsibilities to their communities that would otherwise be allocated to both municipal and provincial governments. For example, Indigenous governments may be responsible for housing, economic development, health and education, and employment of the community members. The impacts of climate change and extreme weather events have devastating effects on Indigenous communities.

Several Group members were encouraged to see that some Canadian municipalities (e.g., [Montreal](#), [Toronto](#), [Vancouver](#), [Edmonton](#), and [Mississauga](#)) are already reporting on environmental and climate-related matters. Group members indicated such examples are a good first step in public sector entities providing stakeholders with qualitative and quantitative information on climate-related matters and their potential costs and initiatives.

Another Group member noted that there is an obligation under existing GAAP to report on the financial impacts of events that have already occurred. They cited the extreme heat and drought that caused severe weather in British Columbia in the summer in 2021, and that the results and implications of the forest fires will be felt for years to come, financially and environmentally.

Another Group member stated that further guidance on projections and measuring the potential impacts of climate change would help further advancing the reporting requirements. Group members noted that while there may be no explicit requirement to report on potential climate-related costs and projections in certain instances, this would not remove the obligation of public sector entities to report important information to stakeholders. Over and above what may be reported in adherence to GAAP, additional information would prove useful and helpful to stakeholders in understanding what public sector entities have to consider and budget for as the impacts of climate change continue to evolve.

One Group member noted that disclosures under MEASUREMENT UNCERTAINTY, Section [PS 2130](#), is an area that could be improved upon. While the disclosure requirements in the Section remain general, preparers could improve the nature and extent of measurement uncertainty disclosures by providing users with better information. Improved reporting may lead to public sector entities making more proactive decisions on the environment and climate change. The Group member concluded that there is an opportunity for enhanced disclosure when applying this standard that may help to highlight climate-related impacts on the financial statements.

A Group member mentioned that the concept of materiality should not solely be focused on quantitative features but perhaps include important qualitative information that would be important to stakeholders. They highlighted that PSAB's Conceptual Framework proposals in its [Concepts Underlying Financial Performance](#) project offer improvements to the description of materiality, and that consideration of additional qualitative aspects of materiality may improve the information provided in financial statements.

Another Group member noted that public sector entities must stay well informed on climate-related issues. This area continues to evolve rapidly, and the Group member noted that there will be advancements and opportunities in enhancing how such information can be measured, predicted and assessed. Public sector

entities will need to invest in the capacity and expertise necessary to support reporting and action in such areas.

A Group member compared the financial impacts of the COVID-19 pandemic to those of climate change. For example, both would affect measurement uncertainty, revenue streams, subsequent events and collection of receivables. Other Group members agreed there may be responsibilities for asking climate-change-related questions in preparing financial statements under current GAAP, and that some information is better reported in supplementary reports such as FSD&A.

Another Group member remarked that municipalities that do report additional climate-related information, environmental objectives, and details on natural assets and sustainable development as part of the reporting are well received by stakeholders. They said that their experience with such municipalities has shown stakeholders appreciate having this information made available.

Most Group members shared the view that a new set of standards specific to climate-related matters may not be needed. Instead, changes to existing standards and additional guidance may be the preferred option as many standards are currently in place that can enhance financial reporting in this area when viewed through a climate-change lens. The existing guidance may serve as a great starting point, providing the adequate principles relevant to financial reporting over climate risks. However, the application of such standards as they pertain to climate-change could be improved and could benefit from improved guidance on when and where such information should be reported.

General application standards: Effective dates and application

The PSA Handbook has two general application standards:

- LIABILITIES, Section [PS 3200](#) (effective for fiscal years beginning on or after September 1, 2004); and
- ASSETS, Section [PS 3210](#) (effective for fiscal years beginning on or after April 1, 2017).

No method of application (e.g., prospective, retroactive) or specific transitional provisions are indicated for the general application standards, which raises the following two issues:

1. If a public sector entity is already accounting for an asset or liability because of the general application standards and then a new specific PSAS is issued for that type of asset or liability, what effective date applies?
2. Since the method of application is not specified in either general application standard, should these standards be applied retroactively or prospectively?

Issue 1

Issue 1 asked what effective date may be applicable when a public sector entity already applied the general application standards and subsequently a new PSAS issued for that type of asset or liability is introduced.

The specifics of the scenario were:

- The effective dates of Sections [PS 3200](#) and [PS 3210](#) have already passed.
- All public sector entities applying the PSA Handbook in preparing their general-purpose financial statements have applied Sections [PS 3210](#) and [PS 3200](#). So, they are including in their financial statements assets and liabilities that meet the asset and liability definitions and the general recognition criteria in FINANCIAL STATEMENT CONCEPTS, Section [PS 1000](#), for which there is no specific PSAS.
- That is, because of the element definitions in the conceptual framework or because the effective date of the relevant general application standard in Section [PS 3200](#) or Section [PS 3210](#) has passed:
 - items not previously recognized as an asset or liability for which the PSA Handbook does not include a specific standard, but that meet the definition of a liability or an asset, will have been recognized in an entity's financial statements, at the latest when the relevant effective date of Section [PS 3200](#) or Section [PS 3210](#) occurred.
 - items previously recognized as an asset or liability for which the PSA Handbook does not include a specific standard and that do not meet the definition of a liability, or an asset will have been derecognized in an entity's financial statements, at the latest when the relevant effective date of Section [PS 3200](#) or Section [PS 3210](#) occurred.
- PSAB issues a new specific financial statement item standard that applies to an asset or liability recognized already by the public sector entity using one of the general application standards.

The Group was asked to consider three views:

- View A: Adjusting the asset or liability at the effective date of the new standard means a change in accounting policy (retroactive application).
- View B: Adjusting the asset or liability immediately when the new standard is issued means a change in accounting policy (retroactive application).
- View C: Adjusting the asset or liability immediately when the new standard is issued means a change in an estimate (prospective application.)

The difference between Views A and B relates to the timing of adopting the new standard. View A argues the new standard should be adopted for the asset or liability already recognized – at the effective date of the new standard. View B argues the new standard should be adopted as soon as it is issued. View B may be appropriate if in developing the new standard PSAB rejected the approach used as the accounting policy by the entity. This view argues that when an entity knows that its previously drafted accounting policy is no longer appropriate; it should not wait until the effective date to adjust it.

View C argues that adopting the new standard is in substance a change in an accounting estimate. The entity must re-evaluate the estimated amount at which it has previously recognized the asset or liability, using the new accounting standard. Once the new standard is issued, it comprises new information for the entity to consider when in estimating the asset or liability. Waiting until the effective date would be

inappropriate. Key to understanding how ACCOUNTING CHANGES, Section [PS 2120](#), applies to this issue is the fact that paragraph [PS 2120.26](#) notes that distinguishing between a change in accounting policy and a change in an estimate can be difficult. Where it is difficult to draw a clear distinction, it is usual for such a change to be treated as a change in an estimate, not as a change in an accounting policy.

Most Group members supported View A for the following reasons:

- A considerable amount of time and effort go into establishing effective dates when introducing new standards.
- Having public sector entities apply the same effective date is important as it allows both preparers and stakeholders to apply the same effective date across public sector entities, making them comparable.
- The time required to adopt and implement new standards must be factored. Many public sector entities may not have the resources required for early adoption and the transition time allowed in setting the effective date often considers that time and effort are required in adopting new standards.
- The issuance date of new standards does not impose an obligation to effectively early adopt such new standards.

One Group member shared an example of adopting LIABILITY FOR CONTAMINATED SITES, Section [PS 3260](#), for which liabilities were previously captured under Section [PS 3200](#). They mentioned that entities in such circumstances first recognized a liability for potential environmental implications in accordance with Section PS 3200. When PSAB issued Section PS 3260, entities opted to adopt the standard at the effective date to allow time to perform due diligence requirements as well as review other factors, complexities and impacts related to adopting the new standard.

Another Group member provided an example of a scenario where the issuance date was used in the adoption of a new standard. In this instance, the entity had undertaken a complex restructuring and the new standard, RESTRUCTURING TRANSACTIONS, Section [PS 3430](#), was issued but had not yet reached its effective date. While not mandated to use the issuance date of Section PS 3430, the public sector entity opted to adopt it ahead of its effective date because all materials required to implement it were already established. In this case, the implementing a new standard at the issuance date provided good information to users, and professional judgment was applied in deciding to early adopt the new standard.

The Group discussed that while most new standards have provisions allowing for early adoption, it is not mandated but is an alternative to implementing the new standard at its effective date. In fact, there may be instances where early adoption is encouraged since it would provide improved information.

While the issue raised in the submission considered a specific scenario, several members mentioned potential situations when adopting new standards may be preferred at a new standard's issue date rather than its effective date. In such instances, professional judgment needs to be applied in considering early adoption.

The Group reached a consensus that View A is the preferred option. The transition period and implementation time are key in allowing public sector entities to adopt new standards.

Issue 2

Issue 2 asked if the general application standards should be applied retroactively or prospectively as neither is specific as to the method of application. The key in this issue is that an entity has identified an asset or liability for which no PSAS exists. So, when the entity applies Section [PS 3200](#) or Section [PS 3210](#) and the GAAP hierarchy to develop an accounting policy for the asset or liability, should the new policy be applied retroactively, prospectively or should a choice be allowed?

The specifics of the scenario were as follows:

- The entity already applies PSAS when preparing its financial statements.
- No specific PSAS exists in relation to cases (a) through (c) below:
 - (a) The entity enters into a **new transaction, or a new event occurs**.
 - (b) The entity has transactions and other events that were **previously immaterial** and has concluded that one is now sufficiently material.
 - (c) The entity has transactions or other events that are **substantively different** from previous circumstances.
- The effective dates of Sections [PS 3200](#) and [PS 3210](#) have already passed (2004 and 2017 respectively).
- Sections [PS 3200](#) and [PS 3210](#) do not specify a method of application of the standard (i.e., whether it should be applied retroactively or prospectively).

The Group was asked to consider two views:

- View A: The entity should have a choice of retroactive or prospective application (extrapolation of paragraph [PS 2120.13](#)). This allows for the possibility that, in some cases, retroactive application might provide the best accountability.
- View B: Prospective application is appropriate as all three cases are changes in circumstances.

View A argues that, as allowed for adopting new PSAS for which PSAB does not specify transitional provisions, paragraph [PS 2120.13](#) should apply and allow a choice of retroactive or prospective application.

View B argues that all three cases in the scenario comprise new circumstances and, thus, only prospective application is appropriate. The submitter clarified that the cases (a) through (c) in the scenario would *not* comprise a change in accounting policy per paragraph [PS 2120.04](#). These circumstances are not addressed in Section [PS 2120](#).

This led many Group members to argue that View B is appropriate because the cases all represent new circumstances.

One Group member noted that consistency is important in applying transitional provisions. While professional judgment can be used, the basis for choosing the method of application should not be influenced by which choice would better support the financial objectives of the entity.

Another Group member noted that retroactive application under View A may provide better accountability information particularly in cases where the circumstances were previously immaterial. Retroactive application provides a basis for more accurate financial information because retroactive data has more predictive value for financial reporting going forward.

Most Group members agreed that View B provides the better approach in addressing the changes prospectively. However, members noted that scenarios can exist where facts and circumstances may indicate that View A has merit and applying the change retroactively provides better accountability information. For example, if it is unclear whether the change comprises an error or change in estimate, professional judgment may be required to decide if the change should be applied retroactively or prospectively.



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