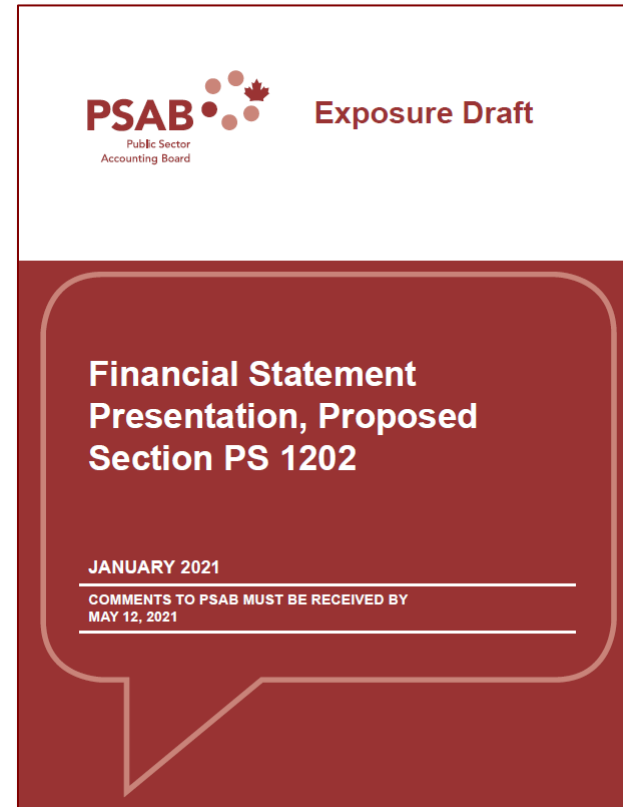
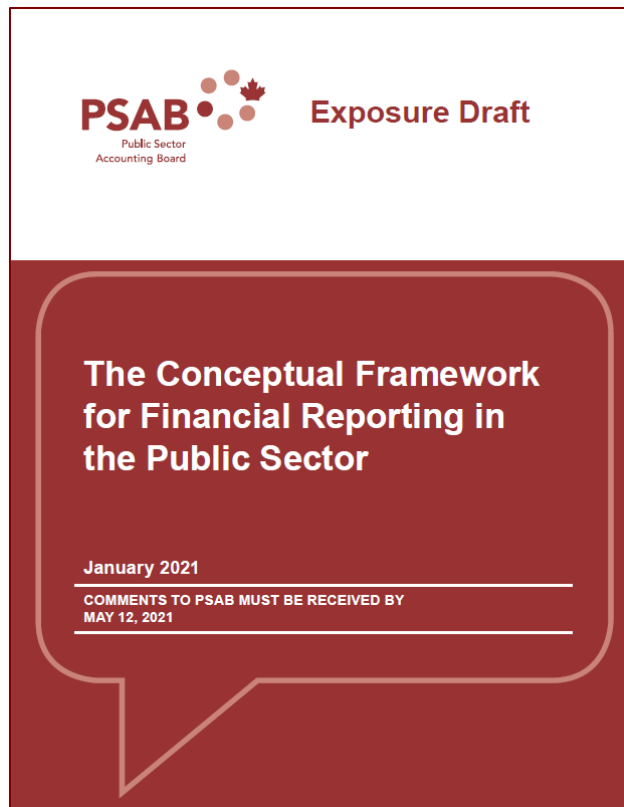


Exploring PSAB's Exposure Draft, "The Conceptual Framework for Financial Reporting in the Public Sector"

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.

Issuance of Exposure Drafts – Significant Step Forward



Agenda

- ✓ Background
- ✓ Highlights of proposals for a revised Conceptual Framework
 - › What's new?
- ✓ Effects
- ✓ Next Steps



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

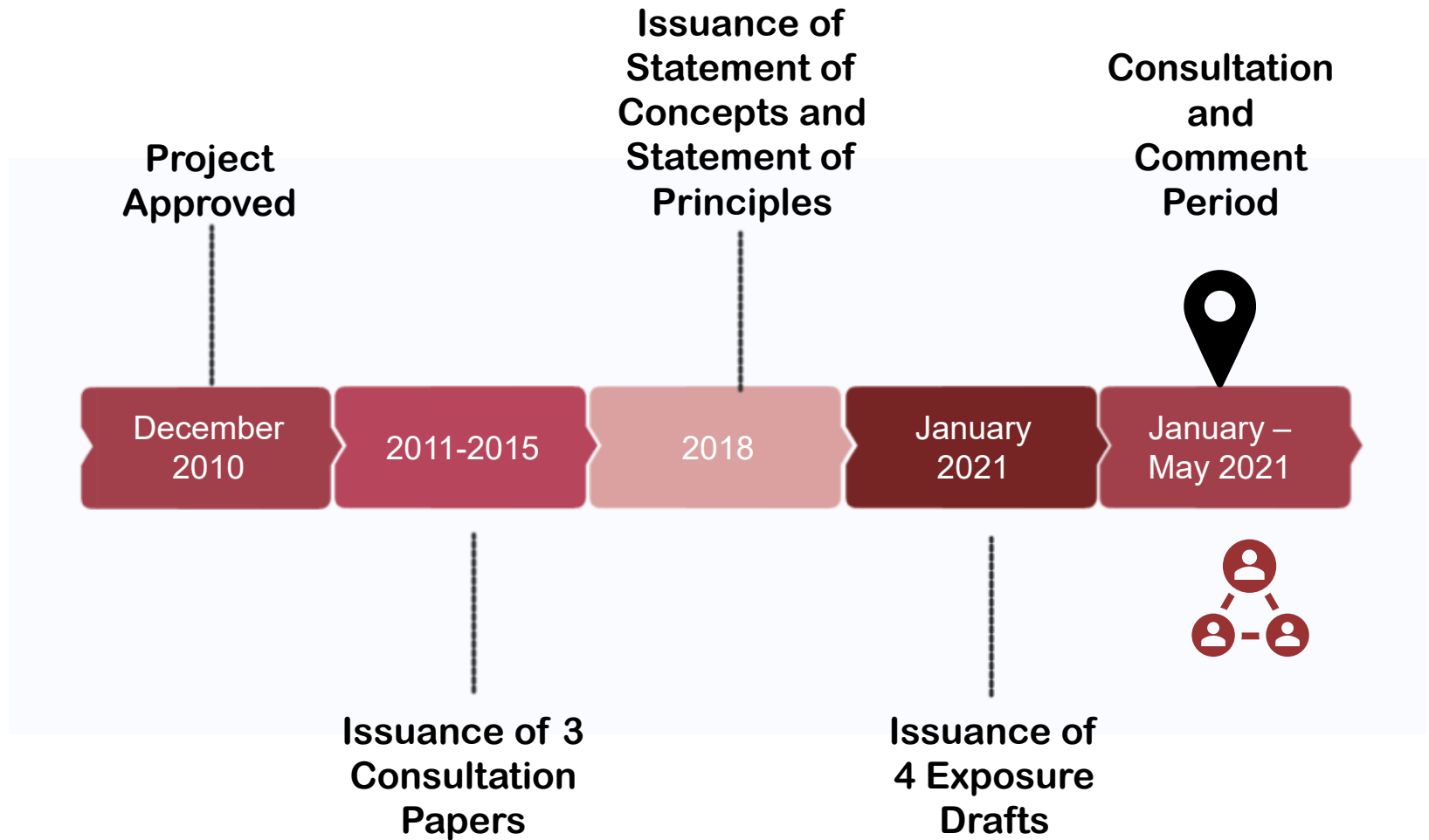
Merwan Saher, Retired, Auditor General, Alberta

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

Where we are in the Project



Extensive Consultation = Extensive Feedback

+ 100 Respondents

PSAB Public Sector Accounting Board **Statement of Concepts**

A Revised Conceptual Framework for the Canadian Public Sector

May 2018

COMMENTS TO PSAB MUST BE RECEIVED BY November 28, 2018

+ 100 Respondents

PSAB Public Sector Accounting Board **Statement of Principles**

A Revised Reporting Model for the Canadian Public Sector

May 2018

COMMENTS TO PSAB MUST BE RECEIVED BY November 28, 2018

- Governments
- Auditors
- Fiscal Managers
- Academics
- Government Organizations – Government Not-for-Profits
- Users
- Municipal Natural Assets Initiative

What is a Conceptual Framework?

It is the foundation that assists

- PSAB to develop standards
- Preparers to account for items not covered by standards
- Users in interpreting information in financial statements

It includes fundamental concepts

- What is the objective of financial reporting?
- What makes financial statement information useful?
- What are assets, liabilities, revenues and expenses?
 - When should they be recognized/derecognized?
 - How should they be measured and presented?

High-level Overview of Proposed Conceptual Framework

Existing Conceptual Framework

- FINANCIAL STATEMENT CONCEPTS, Section PS 1000
- FINANCIAL STATEMENT OBJECTIVES, Section PS 1100

Proposed Conceptual Framework

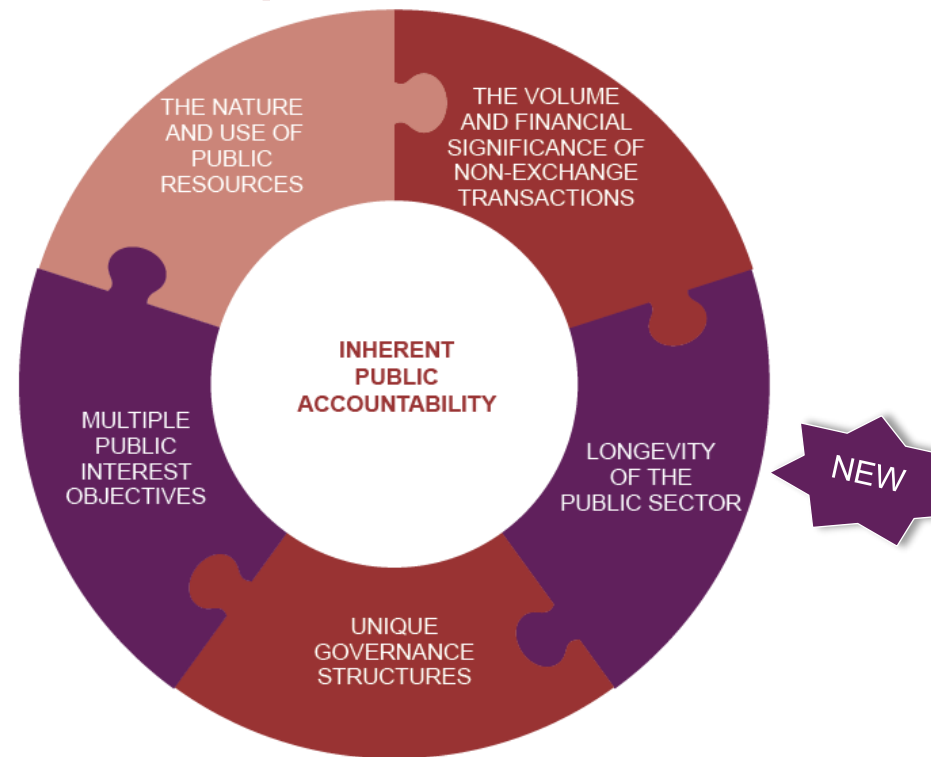
- Chapter 1: Introduction to the Conceptual Framework
- Chapter 2: Characteristics of Public Sector Entities
- Chapter 3: Financial Reporting Objective
- Chapter 4: Role of Financial Statements
- Chapter 5: Financial Statement Foundations
- Chapter 6: Financial Statement Objectives
- Chapter 7: Financial Statement Information: Qualitative Characteristics and Related Considerations
- Chapter 8: Elements of Financial Statements
- Chapter 9: Recognition and Measurement in Financial Statements
- Chapter 10: Presentation Concepts for Financial Statements

Characteristics of Public Sector Entities

Proposed in Statement of Concepts



Proposed in the Exposure Draft



Financial Reporting Objective



To whom? (**the primary users**):

- ✓ the public and
- ✓ the elected or appointed representatives

For what? (**broad accountabilities**):

- ✓ Performance against legislative authorities
- ✓ Financial condition (*includes service capacity*)
- ✓ Financial performance (*includes changes in service capacity*)



Financial Statement Foundations



- Identifiable reporting entity

- Control
- Service capacity

- Unit of measure
 - = CAN \$
- Basis of accounting
 - = accrual

Concept of Control

Purpose

Helps to determine what is included in an entity's financial statements (which resources and other entities).

Feedback Received

Description of control is inconsistent with PS 1300.

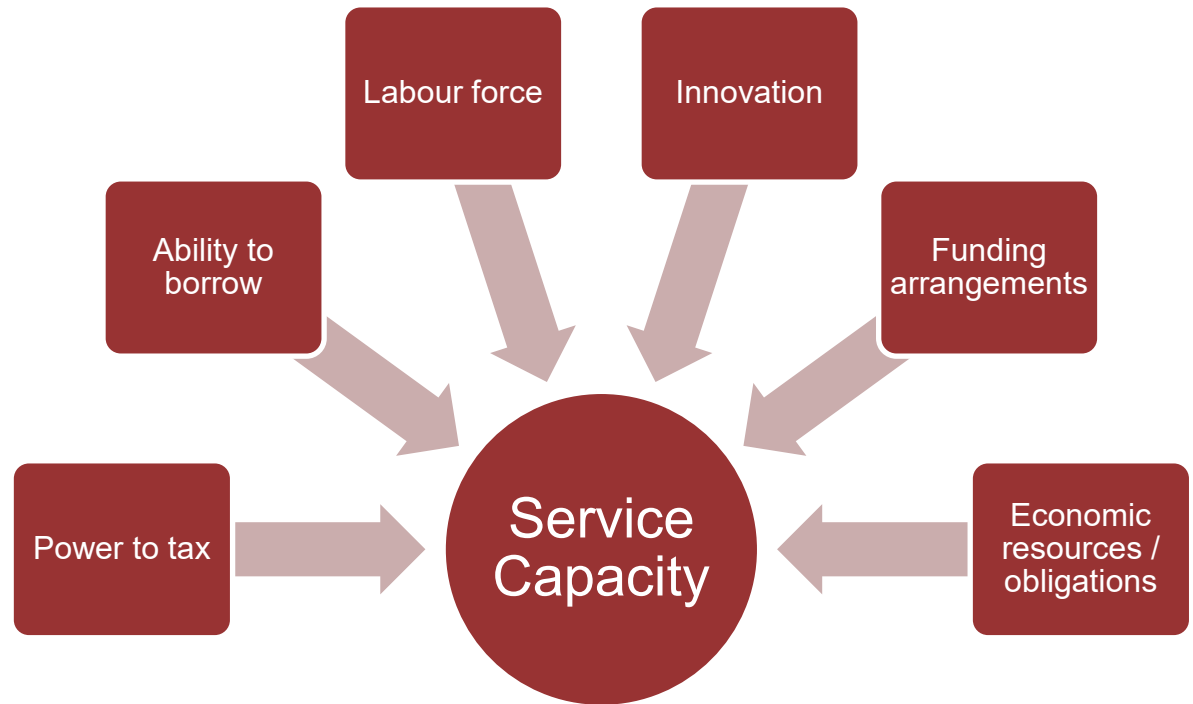


Inconsistency resolved.
Description amended in
conceptual framework.

The Concept of Service Capacity

What is it? Capacity to serve the public.

What affects it?



Moved to Ch 3 = an aspect of financial condition

Financial Statement Objectives



Disclosing Non-compliance and Risks and Uncertainties

Feedback Received

Disclosing non-compliance is outside financial statements

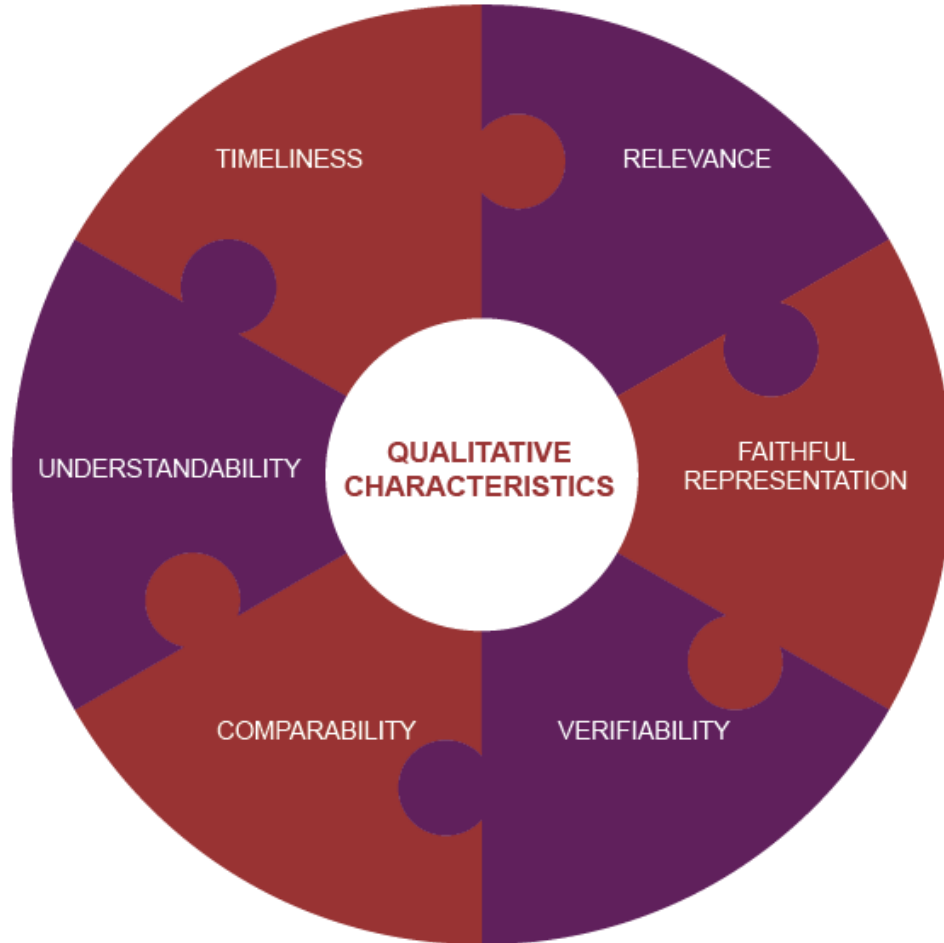
Further guidance required in relation to disclosing risks and uncertainties

Response

- Requirement same as existing conceptual framework
- Fundamental to public sector
- Only financial authorities
- Description amended to note that individual standards provide the disclosure requirements.



Qualitative Characteristics and Related Considerations



Considerations:

- Benefit-versus-cost
- Materiality
- Prudence

Elements of Financial Statements

Assets

Liabilities

Revenues

Expenses

Guidance found in individual standards

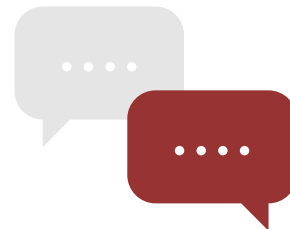
Elements of Financial Statements

Feedback Received

- Include deferrals
- Include “other resources” and “other obligations”

Response

- ➔ Majority of respondents prefer asset/liability model
 - › Model does not include deferrals
- ➔ Hard to understand
- ➔ What are they?



Elements of Financial Statements

Feedback Received

- Clarify accounting for capital transfers



- Clarify rate regulated assets and liabilities



Response

- ➔ Standards level issue
- ➔ PSAB conducted a Post Implementation Review
 - › No change to standard

- ➔ PSAB monitoring international rate regulated activities project
 - › Will provide input from public sector perspective

Recognition and Derecognition



Recognition Criteria

- meets the definition of an element
- future economic benefits expected to be obtained or sacrificed
- can be measured



Derecognition Criteria

- **no longer** meets the definition of an element
- **no longer** expected that future economic benefits be obtained or sacrificed
- **can't** be measured



Recognition Exclusions

Recognition Exclusions



Inherited natural resources



Inherited Crown lands



Purchased and inherited art and historical treasures



Certain intangibles

Feedback Received

1. Remove them from the PSA Handbook.
 - › Not in the public interest.
2. Don't put them in PS 3210
 - › Agreed. Will go in proposed financial statement presentation standard (Section PS 1202).



Recognition exclusions removed from Conceptual Framework as not conceptual.

Feedback in Relation to Natural Assets



- Prioritize the inclusion of natural assets in the PSA Handbook.
- Develop valuation method for natural assets.
- Develop a statement of recommended practice for natural assets.

Measurement



**MEASUREMENT
ATTRIBUTE
=
Historical Cost**


Unless

**PSAB determines that
another attribute better
serves the accountability
objective for an item,
transaction,
or other event**

Going Concern



Presentation Concepts

- Equality of individual statements and notes
- Characteristics of information disclosed
- Disclosure is not a substitute for proper recognition/measurement
- Considerations in making presentation choices
 - Including emerging technology 

FOCUS: Communicating understandable information

Draft Definition of Government

General → Government = An institution established by or through constitutional authority that exists beyond the term of the legislature or council.

Accounting → Government = The government reporting entity. (Default – applies most of the time)

Exceptions:

- *Section PS 3410 and Section PS 3510 re: approval of legislation or by-laws*
- *approval of budgets*

In these exceptions, Government = the Legislature or Council

The Way Forward...

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



Responsive and **responsible**

Effects of the Proposed Conceptual Framework

Not a standard and does not override standards

For Preparers/Auditors

- Directly affects those who develop accounting policies using the Conceptual Framework if no applicable standard, and their auditors
- Review disclosures
- Indirectly affected through future standards

For PSAB

- Underpins Board's decisions in setting standards
- Board can depart from aspects of the Conceptual Framework to meet the accountability objective of financial reporting
- Effective immediately

More understandable financial statement information for users

Effects on Setting Future Standards



- International Public Sector Accounting Standards (IPSAS)
- Criteria for modifying IPSAS principles
 - PSAB's Conceptual Framework

PSAB/IPSASB Conceptual Framework Comparison

Subject	IPSASB	PSAB
Characteristics of Public Sector Entities	~	~
Objective of Financial Reporting	Information for accountability and decision-making purposes	Information for accountability purposes, which will inform decision-making
Primary Users of Financial Reporting	Service recipients and resource providers and their representatives	Public and its elected representatives
Information Needs of Users	~	~
Role of Financial Statements	~	~
Financial Statement Foundations	Not articulated, but consistent	Reporting entity, control, accrual accounting, unit of measure

PSAB/IPSASB Conceptual Framework Comparison

Subject	IPSASB	PSAB
Financial Statement Objectives	Not included	Unique to Canada
Qualitative Characteristics	~	~
Considerations	Materiality, cost-benefit and achieving an appropriate balance between the characteristics	Materiality, benefit versus cost and prudence
Elements	Includes “ownership contributions” and “ownership distributions”	Does not Include “ownership contributions” and “ownership distributions”
Categories of financial position	Includes “other resources” and “other obligations”	Only assets and liabilities; does not include “other resources” and “other obligations”

PSAB/IPSASB Conceptual Framework Comparison

Subject	IPSASB	PSAB
Elements	Does not include “expectation”	Includes “expectation”
Recognition Criteria	Does not include “expectation”	Includes “expectation”
Derecognition	Reverse of recognition criteria	Reverse of recognition criteria
Measurement	Listing of various measurement bases allowed	Primary measurement attribute
Presentation Definition	~	~
Presentation Objective	~	~

Consequential Amendments

Objective

Consistency throughout the PSA Handbook.



- Withdrawal of the existing conceptual framework
- Amendments to references to the existing conceptual framework
- Amendments to LIABILITIES, Section PS 3200, and ASSETS, Section PS 3210
- Amendments to REVENUE, Section PS 3400
- Amendments to the “Introduction to Public Sector Accounting Standards”

Consequential Amendments

- Amendments to DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100
- Amendments to references to “measurement uncertainty”
- Amendments to references to “service capacity”
- Amendments to references to “reliability”
- Revising the definition of “materiality”

Effects

Do not change practice as editorial in nature only.

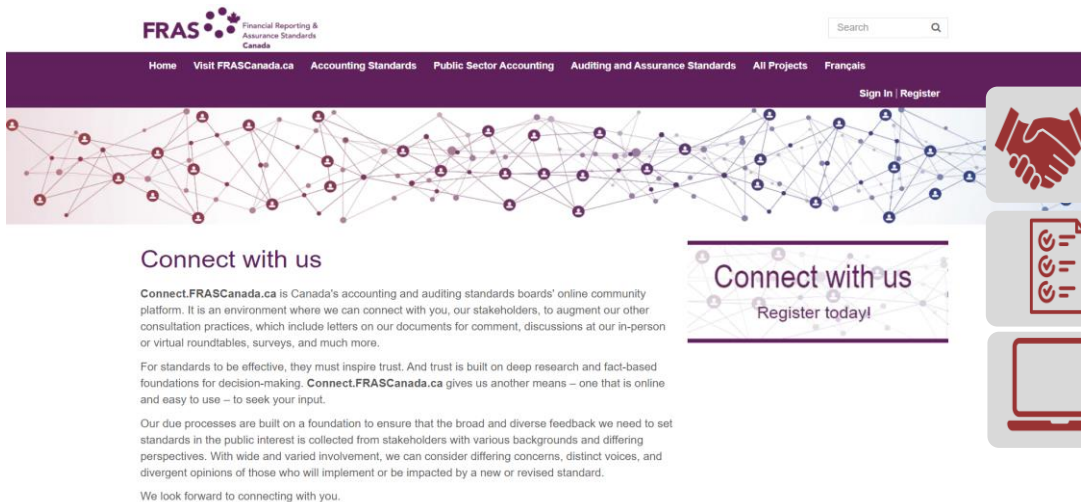
Timing of Application

Expected to be issued after Conceptual Framework is finalized.
Will be effective immediately when issued.

The Exposure Draft is a summary, but details are also available

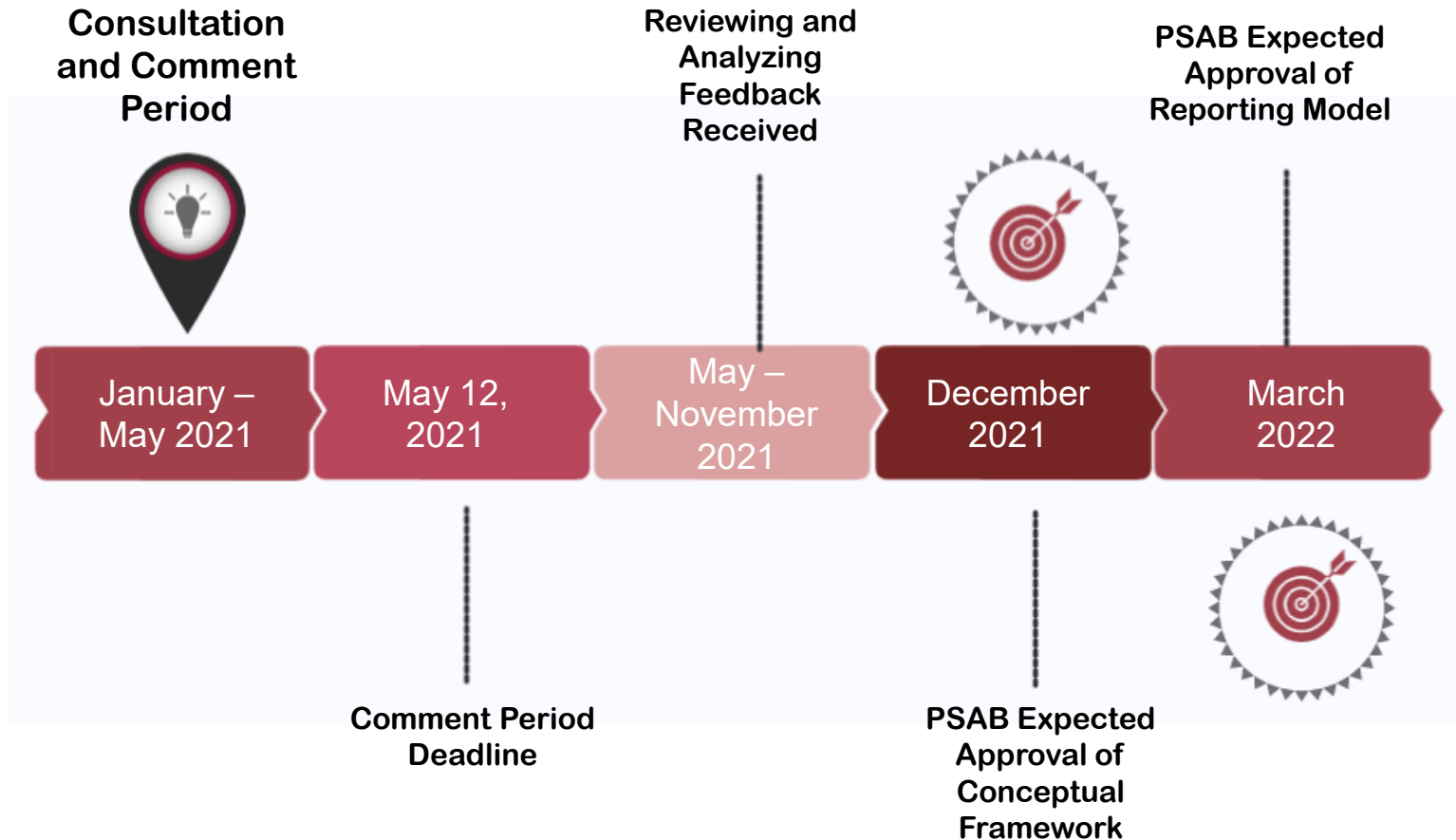
Setting Accounting Standards, Together

- Comment deadline: May 12, 2021
- Submit your thoughts on:
 - Comment letter OR
 - Conceptual Framework Community Platform @ connect.frascanada.ca



- Augments other consultation practices
- Considered part of due process
- Online and easy to use

Draft Next Steps



Additional Information

- Visit project web page @ FRASCanada.ca/public-sector/projects/underlying-performance
 - Conceptual Framework exposure draft and supporting materials
 - Reporting Model exposure draft and supporting materials
 - Consequential amendments exposure drafts and details
 - Webinar: Exploring PSAB's Exposure Draft "Financial Statement Presentation, Proposed Section PS 1202"

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