PSAB
Public Sector
Accounting Board

Application of the Generally Accepted Accounting Principles (GAAP) Hierarchy and the Amendments to IFRS 9 Financial Instruments

Extract, PSA Discussion Group Report on the Public Meeting – November 13, 2025

Section PS 1150, *Generally Accepted Accounting Principles*, defines PSAB's GAAP hierarchy. This standard provides the primary sources of GAAP that are applicable for public sector entities reporting under the CPA Canada Public Sector Accounting (PSA) Handbook. This GAAP hierarchy should be referred to and applied when no pronouncement exists for a particular topic, transaction, or event within the PSA Handbook, or when further clarification relating to an existing pronouncement within the PSA Handbook is required.

When another standard setter amends a standard that is similar to one in the PSA Handbook, questions may arise as to whether similar amendments or interpretations apply to the standard in the PSA Handbook.

The Group examined the application of this topic using the International Accounting Standards Board's (IASB) amendments to IFRS 9 *Financial Instruments* issued in May 2024 (the IFRS 9 amendments) as a practical example.

The IFRS 9 amendments address the timing for derecognition of an existing trade receivable asset (by the vendor) or trade payable liability (by the customer), and the corresponding recognition or derecognition of the cash payment (by both counterparties). The IFRS 9 amendments permit earlier derecognition of financial liabilities settled through electronic payment systems if certain criteria are met, one of which being that the settlement risk associated with the electronic payment system is insignificant (paragraph B3.3.8(c) of IFRS 9).[1] This early derecognition option, however, is not available for other payment settlement formats (e.g., payments settled via cheques), since the IASB considered these other payment formats are subject to a more than insignificant degree of settlement risk, until the cash is delivered (paragraph BC3.55 of the Basis for Conclusions for IFRS 9).[2]

Specifically, while the financial liabilities derecognition guidance provided in paragraph 3.3.1 of IFRS 9 remains unchanged,[3] the IFRS 9 amendments have added new application guidance in paragraph B3.1.2A of IFRS 9 to clarify that a financial liability must be derecognized "on the settlement date."[4]

Adopting a settlement-date approach for the derecognition of financial liabilities and cash under the IFRS 9 amendments may have significant impacts for entities reporting under IFRS Accounting Standards that do not make payments through electronic payment systems. For example, when considering cheque payments, although the historical practice under IFRS Accounting Standards was that a financial liability and the related cash could be derecognized upon issuance of the cheque (i.e., being the date the cheque is physically mailed out by the payor), this practice is no longer permitted under the IFRS 9 amendments for payments not made through electronic payment systems (e.g., cheques). Instead, the earliest that a financial liability (and related cash) may be derecognized under the IFRS 9 amendments (in a cheque-payment scenario) is when the cheque has cleared the customer's bank account, which typically occurs later than the cheque issuance date.

Conversely, no similar changes relating to the derecognition of liabilities have been made under the Public Sector Accounting Standards (PSAS) framework. Therefore, the IFRS 9 amendments might be viewed as giving rise to a GAAP difference in the treatment of cash between the IFRS Accounting Standards framework versus other accounting standard frameworks (e.g., PSAS) in a financial liability derecognition transaction. Despite this, it must be noted that the wording in *Financial Instruments*, paragraphs PS 3450.042-.043,[5] are very similar to the existing wording in paragraph 3.3.1 of IFRS 9[3] and the new wording in paragraph B3.1.2A of IFRS 9.[4] This similarity may result in some interested and affected parties reporting under PSAS to consider whether, in substance, the IFRS 9 amendments' treatment for cash payments not made through electronic payment systems may be applicable under the PSAS framework.

The purpose of this submission was to consider the applicability of the GAAP hierarchy within PSAS as it relates to the IFRS 9 amendments, and to determine whether the updates made under the IFRS 9 amendments need to be considered by public sector entities reporting under PSAS.

The Group was asked to consider the following scenario when discussing its views:

> Entity A is an other government organization, as defined in the Introduction to the PSA Handbook. Entity A prepares PSAS financial statements and has a March 31 financial year-end date. During the year, Vendor provides a service to Entity A, which results in Entity A recognizing a trade payable to Vendor for an amount that is considered material to Entity A's financial statements. On March 25, Entity A issues a cheque to Vendor to settle the material trade payable. On April 2, Entity A observes that the cash has been withdrawn from its bank account.

Issue: Should Entity A continue with its historical practice and derecognize its trade payable to Vendor on the date of the cheque issuance?

The Group was asked to discuss the following views relating to Entity A's consideration of the IFRS 9 amendments:

View A: Yes – Entity A would continue with its historical practice.

Entity A would continue its historical practice, as practitioners have not raised any significant concerns regarding this continued treatment, the applicable PSAS guidance has not changed, and changes to other frameworks should not mandate changes to PSAS financial statements.

View B: No – Entity A would not continue with its historical practice.

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Entity A would not continue its historical practice, as doing so would result in different accounting than IFRS Accounting Standards for cash, despite the nearly identical wording of PSAS and IFRS Accounting Standards for the relevant guidance, and the existing PSAS guidance could support a settlement-date approach.

View C: It depends – Entity A would have a policy choice to make.

Entity A would have to make a policy choice based on application of Section PS 1150 guidance.

Summary

All Group members supported View A, citing the following:

- No change was implemented under the PSAS guidance.
- PSAS has an existing standard (Section PS 3450, *Financial Instruments*) addressing this particular issue.
- PSAS is the authoritative source for Canadian public sector entity financial reporting and this framework is not secondary to any other accounting frameworks, including IFRS Accounting Standards.
- Changes to IFRS Accounting Standards do not automatically trigger changes to PSAS. Specifically, IFRS Accounting Standards changes may not be directly incorporated or adopted by the International Public Sector Accounting Standards (IPSAS) in the same form. Furthermore, even if a change in IFRS Accounting Standards is incorporated into IPSAS, PSAS are not automatically amended as a result. PSAB does, however, leverage IPSAS principles when developing new PSAS.
- The existing historical practice adopted by preparers of PSAS financial statements is well established and provides consistency and comparability for financial statement users.
- No gaps or diversity in practice exist under the current PSAS guidance, and financial statement users have not advocated for any equivalent updates to be made in PSAS.
- Any PSAS changes or amendments must follow PSAB's due process, rather than external developments.

In addition to supporting View A, some Group members noted that View C had some technical merit in allowing for a policy choice when a public sector entity needs to develop a new accounting policy (e.g., when dealing with a new transaction). They cited the following arguments in support of this view:

- room for interpretation exists under PSAS wording ("by paying the creditor") to support allowing a policy choice; and

- professional judgment and financial statement user needs should guide accounting policy decision making.

A few Group members, however, raised some concerns relating to the practicality, system impacts and consistency of applying the IFRS 9 amendments in practice (e.g., how to determine when the cash payment has been received by the counterparty, resources involved in software system updates that may be required, etc.).

While a Group member commented that they did not believe that the IFRS 9 amendments would drive any changes in practice within the public sector, the Group recommended that PSAB proactively monitor the International Public Sector Accounting Standards Board's (IPSASB) developments relating to its adoption of the IFRS 9 amendments. Consideration will be given as to whether PSAB will provide a response to a future IPSASB exposure draft on this matter and whether any other clarifications may be needed.