PSAB Public Sector Accounting Board

General application standards: Effective dates and applications

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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 issues 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 LIABILTY 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.