PSAB Public Sector Accounting Board

Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202

Responses to Exposure Draft

August 2021

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May 6, 2021

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Re: Exposure Drafts: Financial Statement Presentation, Proposed Section PS 1202 & Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section 1202

Dear Sir,

Thank you for the opportunity to comment on the above-noted documents. MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms, with a significant focus on clients in the public sector. We believe that we are well positioned to provide feedback on this important issue.

We have reviewed the Exposure Drafts and have provided our response to the specific questions noted below.

Question: Do you agree with the proposed new financial statement presentation standard?

Overall, we agree with the proposed new financial statement presentation standard. The proposed reporting model improves the understandability and usefulness of the information captured in the financial statements of a public sector entity.

While the net debt indictor is useful for some, the removal of the indicator from the face of the Statement of Financial Position will help the majority of users better understand public sector entities' financial position. Rather than using them to directly generate revenue/returns, public sector entities utilize their capital assets to provide services to rate payers. While taxation is not a direct reciprocal transaction, the majority of rate payers view their tax payment to be in return for the services the public sector entity provides to them and to their community members. Users understand that when capital assets are financed, the debt will be repaid as the capital asset is utilized for its intended purpose. The presentation on the face of the Statement of Financial Position of a large net debt position, which is supported by capital assets, can be misunderstood by some financial statement users. The proposal of net assets versus net liabilities as the key indicator of financial position is the presentation format users are accustomed to and understand from their use of for-profit (private and/or public company) and not-for-profit financial statements. We agree that the net financial assets versus net financial liabilities measure continues to have usefulness for some users and retaining the former net-debt position on a separate statement is appropriate.

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Further, we agree with the removal of the mandatory statement of changes in net debt as we believe there was minimal benefit derived from this statement as the key components that represent the change in net financial assets or net debt are also presented on the proposed Statement of Changes in Net Assets (Net Liabilities) and/or the Statement of Cash Flow. For those entities where the change in net debt is considered beneficial to users, we agree with the option to present this on the statement of changes in net assets or net liabilities.

We agree with the presentation of financial and non-financial assets and liabilities on the face of the Statement of Financial Position. However, we believe that the standard should provide additional clarity around what would be considered a non-financial liability, including examples. This would assist users to understand the statements and ensure more consistency of classification among public sector entities.

Overall we agree with the proposed budget requirements including the conditions when an amended budget could be presented. The guidance will provide consistency in application by public sector entities when budget amendments exist, ensuring financial statement users do not have uncertainty as to which budget figures are being presented. Further we agree with the requirement for an entity with no budget prepared or approved to provide disclosure of this fact. While we agree that a budget to actual comparison is key information for financial statement users, we also agree that a financial reporting framework can not dictate an entity's governance practices (i.e., whether it chooses to prepare or approve a budget). Users of financial statements do not understand why an entity which does not have a budget, or has not approved its budget, is required to have an audit report modification. Users of financial statements will better understand these situations through financial statement disclosure rather than audit report modification.

Question: Do you agree with the effective date of April 1, 2024, to implement the financial statement presentation standard, Section PS 1202?

We agree with the effective date of April 1, 2024. This effective date will provide public sector entities with sufficient time to implement the transition.

Question: Do you agree with the consequential amendments outlined in this Exposure Draft?

We agree with the consequential amendments arising from the proposed new financial presentation standard.

We would be pleased to offer our assistance to the PSAB for any future proposed changes to PSAS.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed business in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous communities, medical and legal professionals, not-for-profit organizations, municipalities and government entities. In addition, our client base includes a sizeable contingent of publicly traded companies.

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Yours truly,

MNP LLP

Jody MacKenzie, CPA, CA
Director, Assurance Professional Standards

May 12, 2021

481314

Michael Puskaric, MBA, CPA, CMA
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Public Sector Accounting Board
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mpuskaric@psabcanada.ca

RE: PSAB Exposure Draft: Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section 1202

Thank you for the opportunity to provide comments on the Exposure Draft titled, "Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202". The views expressed in this letter reflect the views of the Government of the Province of British Columbia (BC), including central agencies, ministries and entities consolidated into the British Columbia Summary Financial Statements. The Summary Financial Statements of the Province are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards.

Representation of hedged financial instruments

We continue to be concerned that PS 3450 requires reporting of financial instruments at fair value and on the gross basis. Fair value is significant in for-profit financial reporting as it is relevant for investment and management decisions. In public sector entities, hedging is used to offset gains and losses arising from holding financial instruments and safeguard against market risk. Reporting financial instruments at fair value on the gross basis will not reflect the ultimate settlement value of the financial assets and liabilities and will introduce artificial volatility in the financial statements.

We agree with the remaining proposed amendments.

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Should PSAB have any comments or questions, please contact me at: 250 387-6692 or via e-mail: Carl.Fischer@gov.bc.ca, or Diane Lianga, Executive Director, Financial Reporting and Advisory Services Branch, at 778 698-5428 or by e-mail: Diane.Lianga@gov.bc.ca.

On behalf of the Government of British Columbia,

Sincerely,

Carl Fischer, CPA, CGA
Comptroller General
Province of British Columbia

Encl.

cc: Michael Pickup, FCPA, FCA
Auditor General
Province of British Columbia

Diane Lianga, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Treasury Board of Canada Secretariat
Secrétariat du Conseil du Trésor du Canada

Ottawa, Canada
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Michael Puskaric
Director
Public Sector Accounting
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Mr. Puskaric:

SUBJECT: Financial Statement Presentation, Proposed Section PS 1202, and related Consequential Amendments

Thank you for the opportunity to comment on the Exposure Draft (ED) *Financial Statement Presentation, Proposed Section PS 1202.* Our response to the specific questions posed is provided in Appendix A below.

Our response to ED *Consequential Amendments Arising from the Proposed Financial Statements Presentation standard, PS 1202* is provided in Appendix B below.

If you have any further questions related to these comments, please do not hesitate to contact either Blair Kennedy at blair.kennedy@tbs-sct.gc.ca (613-404-2996) or myself at diane.peressini@tbs-sct.gc.ca (613-369-3107).

Yours sincerely,

Diane Peressini
Executive Director,
Government Accounting Policy and Reporting

c.c.: Roch Huppé, Comptroller General of Canada
Roger Ermuth, Assistant Comptroller General, Financial Management

APPENDIX A

Exposure Draft - Financial Statement Presentation, Proposed Section PS 1202

Responses to Questions Posed

1. Do you agree with the proposed new financial statement presentation standard?

Overriding comment: linkage to International Strategy

Due to the International Strategy adopted in 2020, in which PSAB decided to adapt IPSAS principles when developing new standards, we believe that PSAB's reporting model should be better aligned with that of the IPSASB. Otherwise, we foresee significant issues going forward with this strategy. Please see our responses below for further information on our concerns.

Our comments on proposed PS 1202 are as follows:

Proposals for "financial assets" and "financial liabilities"

While we agree with PSAB's decision to present the net debt indicator (net financial liabilities/assets) in a separate statement, we have the following significant concerns with the ED proposals:

Definitions – financial assets and financial liabilities

- We do not agree with the proposed use of the terms "financial assets" and "financial liabilities" for items that do not meet the definition of financial instruments in PS 3450 *Financial Instruments*.
    - The sole purpose for the proposed use of the terms "financial assets" and "financial liabilities" appears to be the development of the statement of net financial assets/liabilities.
    - The proposed use of these terms is inconsistent with that of all other standard setters, and, consequently, reduces the comparability of PSAS financial statements to those of publicly accountable entities in Canada that apply IFRS and to other public sector entities applying IPSAS. Consequently, we suggest that the definitions of financial assets and financial liabilities be aligned with those in IPSAS 41 *Financial Instruments*.
    - The two categories that do not meet the definitions of financial instruments in IPSAS 41 are "inventories held for sale" and "unearned revenue". For most public sector entities, inventories held for sale are not significant, as indicated by the fact that there is no separate PSAS for inventory. With respect to unearned revenue, conceptually, we do not believe that this should be considered a financial liability, given that the resources given up to satisfy the liability are goods or services rather than a financial asset.

- We do not agree with the proposed definitions of "financial assets" and "financial liabilities" as we believe that they reduce the understandability of PSAS financial statements.
    - Categorizing items that will, in the future, be converted into financial resources or financial obligations but do not represent financial instruments (per PS 3450) at the reporting date is neither transparent nor understandable for users of financial statements. As well, excluding items such as endowments, which are clearly financial instruments, from the "financial assets" category will reduce the understandability of PSAS financial statements.

    - The carrying amounts of those items that meet the proposed definitions of financial assets and financial liabilities but are not financial instruments do not necessarily represent the future financial resources that will be received or sacrificed.
        - While we understand that, when inventory is eventually sold, resources will be received that may be used to pay for future obligations, the carrying value of inventory does not usually represent the amount that will eventually be received. Inventory is not a present financial asset at the financial statement date.
        - Similarly, with respect to unearned revenue, although the resources received will, in part, be used to discharge future financial obligations (such as payments to employees for services rendered), the entity's liability to pay for the goods and services delivered arises only when the performance obligation is met. Consequently, unearned revenue does not represent a present financial obligation at the financial statement date, and the amount received does not directly correlate with the amounts required to pay for the services performed.
    - Further, we believe that entities may have significant difficulties with the proposed requirements to distinguish unearned revenue between that which is a financial liability and that which is a non-financial liability. As well, the requirements related to capital transfers, entailing reclassification of unearned revenue between the financial or non-financial liability categories, is unnecessarily complex.
        - For some entities or transactions, there will often be a combination of "financial" and "non-financial" unearned revenue, e.g. consider an entity that delivers services based on a network that comprises employee services and capital assets, or P3 arrangements that combine the user pay and financial liability models.

Presentation in the statement of financial position

- We do not agree with the requirement to present the proposed categories of "financial assets" and "financial liabilities" on the statement of financial position.
    - We believe that this categorization on the statement of financial position is unnecessary; its only purpose is to facilitate the preparation of the "statement of net financial assets/liabilities". This categorization is not a requirement under IPSAS or IFRS and we believe that it reduces the understandability of the statement of financial position for the reasons outlined above.
    - The proposed measure "net financial assets/liabilities" is by its nature an indicator. Like other indicators, this measure may be derived from individual line items presented on the statement of financial position. This calculation could be detailed in the "statement of net financial assets/liabilities" or in the notes (see below).

Recommendations:

- We recommend that the definitions of financial assets and financial liabilities be amended to represent only financial instruments in the scope of PS 3450, thereby aligning with all other standard setters, in particular the IPSASB and IASB.
- We suggest that the proposed categories "financial assets" and "financial liabilities" be removed from the statement of financial position, and that assets and liabilities be presented in order of liquidity on this statement. PSAB may wish to consider whether the current/non-current distinction required by other standard setters is relevant for Canadian public sector entities.

Proposals for the statement of net financial assets/liabilities

As noted above, we do not agree with the proposals related to categorizing line items as "financial assets" and "financial liabilities" that are not financial instruments on the statement of financial position. In our opinion, the statement of net financial assets/liabilities should be limited to financial instruments, as this will better reflect the financial resources presently available to discharge present financial liabilities.

However, if PSAB does not support our recommendations above, we suggest the following amendments to the proposed "statement of net financial assets/liabilities":

- We propose that PSAB rename this statement to better reflect the purpose of the indicator; for example, the "*statement of net contributions to/requirements for future financial resources*".
- The line items that build up the indicator should be derived from the relevant line items on the statement of financial position.
    - We believe that it is important that items such as inventory or unearned revenue, which are not financial instruments, are separately categorized on this statement, as their carrying value does not necessarily represent the amount of future resources that will be received or given up. Supporting note disclosure could be added as necessary to distinguish the components of these line items that are expected to give rise to future financial resources or financial obligations.

In addition, we believe that it is unnecessary to include a sentence explaining the net debt indicator on the face of this statement, given the direction in the proposed Conceptual Framework that:

> "3.13 In developing financial reporting concepts and standards, <u>standard setters presume that those who use the resulting information have a reasonable knowledge of economic activities and some understanding of financial reports</u>."

<u>Other items of concern:</u>

- Paragraph 1202.80 provides disclosure requirements for loans payable. Given that loans payable are financial instruments, any disclosure requirements should be included in PS 3450 *Financial Instruments* rather than in PS 1202.
- While we agree with the requirement to report expenses by function or major program in the statement of operations (.117(b)), there is usually a need to aggregate these amounts, particularly for senior governments with many different programs. Therefore, to ensure clarity of the requirements, we suggest that the ED states that the detail by function or program may be provided on the face of the financial statement or in the notes, as considered necessary when considering the categorization of expenses per paragraph.120.
- Paragraph 1202.123 (new) states:
  "When it is not practicable to allocate interest expense to main functions or programs, interest expense may be presented as a separate line item." For senior governments that issue debt instruments, the allocation of the related interest expense by function or program is not relevant to users of the financial statements. Therefore, having to demonstrate that it is not practicable to allocate such interest costs should not be a requirement. Consequently, we suggest that a policy choice be introduced to allow entities to present interest expense in a separate line or by function/program on the statement of operations.

2. Do you agree with the effective date of April 1, 2024, to implement the financial statement presentation standard, Section PS 1202?

We do not agree with the effective date of April 1, 2024. The proposed changes to the financial statements will require systems changes that may take considerable time to implement.

- Given that entities are currently working through the implementation of 6 new standards (PS 1201 *Financial Statements Presentation*, PS 2601 *Foreign Currency Translation*, PS 3450 *Financial Instruments*, PS 3280 *Asset Retirement Obligations*, PS 3400 *Revenue* and PSG-8 *Purchased Intangibles)* we believe that the effective date for *Financial Statement Presentation,* proposed *Section PS 1202* should provide at least 3 full accounting cycles for implementation subsequent to PSAB's approval.

APPENDIX B

Exposure Draft - – Consequential Amendments Arising from the Proposed Financial Statement Presentation Standard PS 1202

Response to Question Posed

1. *Do you agree with the consequential amendments outlined in this Exposure Draft?*

Given that we do not agree with the proposed definitions of financial assets and financial liabilities, and our belief that these terms should refer only to financial instruments as defined in PS 3450, we do not agree with many of the consequential amendments arising from this proposed terminology.

- Based on our suggestion that the definitions of financial assets and financial liabilities be aligned with those of the IPSASB, consequential amendments to the definitions of these items in the PS 3450 Glossary would be necessary.
- The proposed terminology “financial instrument assets” and “financial instrument liabilities” for PS 3450 is very cumbersome and does not align with the pronouncements of the IPSASB or any other standard setters.

Respondent No: 1

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Responded At: Jun 27, 2021 19:18:13 pm

Last Seen: Jun 27, 2021 22:26:00 pm

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Q1. **Do you agree with the proposed new financial statement presentation standard as described in Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202"?**

Yes

Q2. **Please provide comments to explain your response above.**

With the revised presentation of the financial statements, users will see familiarity and there will be a closer conformance with financial statements prepared from other accounting frameworks (IFRS, ASPE, etc). More specifically, under the statement of financial position, the revised presentation will certainly be more in line with the Balance Sheet statement. This increases the understandability for most non-financially literate readers as they can relate with owning assets (i.e. home, car, investments) and liabilities (i.e. mortgages, leases). A breakdown of the net assets (liabilities) following this section is equivalent to the residual equity portion for most corporations and can be easily comprehended. Although we do believe the use of current and long-term would have provided better clarity to the primary users rather than the use of financial and non-financial to subcategorize assets and liabilities.

Q3. **Do you agree with the effective date of April 1, 2024, to implement the financial statement presentation standard, Section PS 1202?**

Yes

Q4. **Please provide comments to explain your response above.**

Although we have no issue with the effective date, there are numerous new presentation changes, addition of new statements to the financial statements, and implementation of new standards, there may be some that will require more time. Therefore additional time could be considered as many of the smaller local government entities may not have the available resources to properly review the impact of the changes to the financial presentation or implement the necessary system changes.

Q5. **Do you agree with the proposed consequential amendments outlined in Exposure Draft, "Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202"?**

Yes

Q6. **Please provide comments to explain your response above.**

No further comments.

June 24, 2021

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
TORONTO, ON M5V 3H2

Dear M. Puskaric:

Re: Exposure Drafts: *Financial Statement Presentation, Proposed Section PS 1202* (January 2021) and *Consequential Amendments Arising from the Proposed Conceptual Framework* (January 2021)

With respect to the Exposure Draft on *Financial Statement Presentation, Proposed Section PS 1202*, as set out in the attachment, we continue have concerns about the transparency of the model as currently presented.

With respect to the Exposure Draft on *Consequential Amendments Arising from the Proposed Conceptual Framework*, we agree with the proposed amendments. The attachment sets out a suggested improvement.

Yours truly,

Judy Ferguson, FCPA, FCA
Provincial Auditor

JR/dd

Attachment

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	Question	Response
***Financial Statement Presentation, Proposed Section PS 1202* (January 2021)**		
1	Do you agree with the proposed new financial statement presentation standard?	We are generally in agreement other than the following: General Presentation Principles Fair Presentation .020: We disagree with the paragraph as we find the proposed wording can interpreted to sanction preparing general-purpose financial statements inconsistent with the PS standards and the Conceptual Framework where legislation requires an entity to measure and recognize differently from the standards and/or Conceptual Framework. We further find paragraph .020 inconsistent with the proposed Conceptual Framework Entity-specific information that suggest entities may supplement the core financial statement requirements with additional information as long as it does not conflict with those core requirements. Meeting the Financial Statement Objectives Definitions – Financial and Non-Financial Liabilities: We find the proposed definitions (paragraphs .073 and .084) confusing, and are uncertain if the distinction of whether they are expected to be settled using financial assets will be workable in practice. We also find the construct of the definition of non-financial assets (does not meet the definition of a financial asset [.059]) simpler and less prone to misinterpretation than the construct of the definition of non-financial liabilities (.084). We agree with the intent of this standard as not to include any recognition criteria. However, contrary to this statement, the definition in PS 1202.005d (i.e., clause “excluded from as noted in paragraph PS1202.71”) includes recognition criteria. We suggest PSAB consider revising this definition to remove recognition criteria for consistency purposes. Statement of Net Financial Assets or Net Financial Liabilities .102: We question the placement of meaning of the indicator on the statement. We think placement within the notes of the financial statements would be consistent with purpose of notes as reflected in paragraph .207 (clarify and explain items….reported on the face of financial statements). Option to Report the Reasons for the Change in Net Financial Assets or Net Financial Liabilities (paragraph .104) While we agree with giving small entities

	Question	Response
		the option of reporting reasons for the change in net financial assets or net financial liabilities, we think it should be required reporting for senior governments given their greater level of complexity. In addition, making it a requirement would help users understand changes in one of the critical measures of a government's financial performance and facilitate comparability between senior governments. Comparing actual financial performance to that budgeted (paragraphs .186 to 201). This section refers to budgets being approved by appropriate authorities. We suggest PSAB consider providing additional guidance as to what constitutes "appropriate authority" particularly for situations where legislatures of senior governments do not approve overall budgets (like Saskatchewan). Amended Budget (.198) We disagree with allowing amended budgets. Rather, we think, new governments should explain variances from the originally approved budget within the Financial Statement Discussion and Analysis; explanations may include changes made under its control (e.g., different priorities, new programs or removal of programs).
	Do you agree with the effective date of April 1, 2024, to implement the financial statement presentation standard, Section PS 1202?	No, we do not agree the proposed effective date of April 1, 2024 would be in the public's best interest in that some senior governments would be adopting two different significant standards within a two-year period. This would occur for governments, such as the Government of Saskatchewan, that have not yet to adopted PS 1201 (effective date of on or before April 1, 2022). While governments have had substantive time to prepare for the adoption of PS1201, users of the statements will face two significant changes within a short timeframe, which may in turn impair their ability to understand them.
	Other comments:	We have identified the following potential area of improvement: Comparative Information .034 - .036: We suggest PSAB consider adding guidance to preparers in situations where classification and scope change from the prior reporting period. Providing guidance in this area would be consistent with PSAB's current practice of providing guidance on changes in accounting policies (e.g., disclosure details and impact of the change).

	Question	Response
		Share capital .146-.150: We suggest PSAB consider adding guidance in relation to accounting for share capital in the public sector. While share capital in public sector entities may be rare, lack of clear guidance in this area increases the risk associated with such arrangements (i.e., due to the use of judgement, consideration of the substance of such arrangements—share capital versus other economic obligations). Improved guidance would promote comparability and understandability across public sector entities. Budgets: In addition to requiring budgets be presented in the statement of operations, we suggest PSAB require budgets be presented in the statement of financial position. In our view, such a requirement would be in the public's best interest as it would support holding governments to account not only its revenues and expenses (an annual focus), but for its financial position (a longer term focus).
***Consequential Amendments Arising from the Proposed Conceptual Framework* (January 2021)**		
	Other comments	We have identified the following potential area of improvement: Given the proposed guidance in PS1202 about going concern, we suggest PSAB the need for consequential amendments to PS3450 to make clear the difference between: • restructuring transactions resulting from instances where operations and related assets and liabilities are transferred as part of a restructuring, and • instances where entities cease operations and hence are no longer a going concern.

Ministère
des Finances
Québec
Contrôleur des finances

Québec, le 30 juin 2021

Monsieur Michael Puskaric, CPA, CMA
Directeur, Comptabilité du secteur public
Conseil sur la comptabilité dans le secteur public
277, rue Wellington Ouest
Toronto (Ontario) M5V 3H2

OBJET : Commentaires sur l'exposé-sondage "Modifications corrélatives au projet de chapitre SP 1202, « Présentation des états financiers »"

Monsieur,

Vous trouverez ci-joints nos commentaires concernant l'exposé-sondage mentionné en objet.

Nous sommes généralement en accord avec les propositions de cet exposé-sondage.

Nous espérons que nos commentaires vous seront utiles dans la poursuite de vos travaux et vous prions d'agréer, Monsieur, nos salutations distinguées.

La contrôleuse des finances,

Lucie Pageau, CPA, CA

p. j. (1)

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QUESTION DU CCSP – COMMENTAIRES DU CONTRÔLEUR DES FINANCES

1. **Appuyez-vous les modifications corrélatives proposées dans le présent exposé-sondage?**

   Nous sommes généralement en accord avec les propositions de cet exposé-sondage. Il est toutefois difficile de s'assurer de l'exhaustivité de celles-ci compte tenu de l'ampleur du projet.

   La modification proposée au paragraphe .003 du chapitre SP 3450 INSTRUMENTS FINANCIERS est, à notre avis, une erreur, car les critères des actifs destinés à la vente sont bien à SP 1202.055 et non à .060 comme proposé.

   Ensuite, nous sommes d'avis que des modifications devraient être apportées au chapitre SP 3400 REVENUS afin de refléter les nouvelles dispositions du SP 1202 qui touchent ce chapitre. En effet, de nombreux paragraphes et notes de bas de page concernent les dispositions du chapitre SP 3400, mais celui-ci n'a pas été modifié.

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Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

June 28, 2021

Re: PSAB Exposure Draft – Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202

Dear Mr. Puskaric,

We greatly appreciate the Board taking the time to fully outline the impacts the adoption of proposed Section PS 1202 will have on the rest of the PSA Handbook. We also appreciate the Board adding a paragraph to each Section that is impacted, clearly listing the effective date and method of transition for these consequential amendments. We believe this will make the adoption of Section PS 1202 and the consequential amendments much clearer for readers of the Handbook.

We have read the above-mentioned Exposure Draft that was issued January 2021 and are pleased to have the opportunity to provide responses to your specific question as outlined below.

1. *Do you agree with the consequential amendments outlined in this Exposure Draft?*

   We agree with the consequential amendments set out in this Exposure Draft.

   As can be seen throughout the Exposure Draft there will be a significant number of consequential amendments to many other Sections in the PSA Handbook as a result of the issuance of Section PS 1202, particularly to the Sections that make up the financial instruments suite of standards. Governments have not yet adopted Section PS 3450, *Financial Instruments,* and the related suite of standards, including existing Section PS 1201, *Financial Statement Presentation*. However, governments will adopt these standards for fiscal years beginning on or after April 1, 2022, which means March 31, 2023 and December 31, 2023 will be the first year ends affected. By that time, it is expected PSAB will have issued new Section PS 1202 and its related consequential amendments into the main body of the PSA Handbook. Currently when new Sections/consequential amendments are issued, the previous guidance they are replacing is removed from the main body of the PSA Handbook and included in archived pronouncements, even though that guidance is typically still relevant for a year or two. Since there are such a large volume of amendments proposed to Section PS 3450 and the related suite of standards, it may become quite difficult for PSA Handbook users to read and apply these Sections, since they will need to look to the archived pronouncements to see the previous version of each paragraph that has been amended.

As a result, in the short term, we would highly encourage the Board to include a full copy of pre-amendment Section PS 3450 and each Section in the related suite of standards in the archived pronouncements (this can be done in PDF form). This would allow a user of the Handbook to easily read the full pre-amendment version of Section PS 3450 (and each related Section), which will make application of the Section much easier. Stakeholders recently requested the AcSB do this for ASPE Section 3856, *Financial Instruments,* and Section 3840, *Related Party Transactions,* due to the extensive changes that were made to these sections as a result of updating guidance on related party financial instruments, and it has been quite helpful.

In the long term, we would highly encourage the Board to consider organizing the PSA Handbook following the model that is used in Part I of the CPA Canada Handbook, where the IFRS Handbook is separate into "IFRS Standards in effect on X date" and "IFRS Standards issued but not yet effective." This would make the PSA Handbook much easier for stakeholders to navigate as often readers do not realize that new standards that have been issued into the main body of the PSA Handbook (i.e. Section PS 3280, *Asset Retirement Obligations*) are not yet effective and that the existing standards that are still effective (i.e. Section PS 3270, *Solid Waste Landfill Closure and Post-Closure Liability)* are now located in the archived pronouncements section.

Thank you for your consideration of our response. We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Sayja Barton, Director National Accounting Standards (705-963-0824 or email sbarton@bdo.ca).

Yours sincerely,

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June 28, 2021

Public Sector Accounting Standards Board
Toronto, Ontario

Dear Michael Puskaric,

Our response to PSAB's exposure drafts *The Conceptual Framework for Financial Reporting in the Public Sector* and *Financial Statement Presentation, Proposed Section PS 1202*, including consequential amendments and detailed amendments (collectively, "the proposals"), are below.

We have provided a combined response to the proposals because of the interrelationships among the proposals.

We recognize the significant efforts of PSAB on its conceptual framework and presentation standards. It is a tremendous achievement.

In response to the specific question whether we agree with the conceptual framework or new financial statement presentation, our answer(s) are "Yes, with suggestions for improvements."

We organize our response as follows:

- General comments of a fundamental nature
- Specific comments on the main proposals. We follow the main categories of reporting changes PSAB used in its presentations to stakeholders during its March 2021 webinars.
- Other comments, on various matters in the proposals.
- Edits and editorial comments.

General comments of a fundamental nature

1. We agree with the overall structure and approach of the conceptual framework. We agree with the "chapters" approach.

2. We agree with the conceptual framework's characteristics of public sector entities, reporting objectives, role of financial statements, financial statement objectives and foundations, qualitative characteristics, elements, and the recognition measurement and presentation concepts. We suggest below areas in which we believe the conceptual framework and reporting proposals can be further strengthened.

3. In our view, the conceptual framework has key areas where it should be better defined. A conceptual framework should be axiomatic: a logical set of statements that are exhaustive, complete, consistent (not contradictory), and useful for understanding and insights. The conceptual framework should further limit use of, or clarify use of, exceptions to fundamental concepts. We agree with PSAB that the proposed framework will allow for future flexibility, but the exceptions may weaken application of the framework. The recourse to future PSAB decisions or individual standards may not be sufficient if there is not a strong conceptual framework to act as a safeguard.

4. In our view, the root cause of some concepts not being better defined is that the conceptual framework and presentation standards are at an intermediate stage of a much broader trend: a movement from fund accounting to a more private sector model with a pure asset/liability and "clean surplus" approach, to now a more "modified" asset/liability model with "accumulated other" and where "not all changes in an entity's financial position are necessarily included in surplus or deficit" (CF 6.25). The statement of net assets is starting to resemble various "funds" or "reserves" ("pure" surplus, remeasurements, and other). Perhaps the proposals represent a stage on a longer-term trend back towards fund accounting, but without a focus on operating and capital and restricted funds. In previous responses to PSAB, we suggested alternative presentations including measures of surplus that incorporate capital maintenance. In the private sector a distinction between capital and operating is crucial due to the rate of return calculation that is necessary for private financial capital, but this is not as crucial or even applicable for public sector entities. We encourage PSAB to consider whether a different approach starting with liabilities first, and expenditure-driven concepts, may better assist in resolving conceptual issues that the proposals are attempting to deal with, including capital transfer deferrals, non-financial liabilities, "accumulated other" and the "flexibilities" that the proposals set up to appear in various statements.

5. A liability and expenditure driven approach would be consistent with the "after-capital deficit" used by ratings agencies and readily understandable by citizens, to which public sector entities are accountable. We encourage PSAB to consider adding to its proposals a statement of "after-capital deficit" (or similar indicator) and then develop the implications of an accounting that includes a focus on such a key indicator.

6. Broadly, it is not clear what approach to public sector reporting (either a pure asset and liability model, or the modified asset and liability model) that is being proposed, or perhaps even a return to a fund model (capital fund, operating fund, endowment fund) is better. The proposals maintain features of public sector financial reporting that best serve democracy (the broadest accountability value): accrual (versus cash) accounting, recognizing capital assets, and reporting net debt. Recent developments such as fair value remeasurements, or the proposed "accumulated other," are not so clear, as we explain later. Various accountability and transparency values are involved: highlight sustainability or flexibility or vulnerability issues and provide information for capital markets/debt holders (as net debt did), or highlight issues of service capacity and capital maintenance, as recognizing capital assets does, or perhaps provide more relevant valuation information, as remeasurements do. Perhaps the pure asset and liability model improved accountability to the budget (because deferrals were

avoided) and improved comparability. It is not clear whether PSAB should retrench the pure asset and liability model (no deferrals, no unrealized gains and losses, no "accumulated other"), shift back to accrual fund accounting (which may resolve capital/operating matters), or continue with some limited departures from a pure asset and liability model as proposed.

7. We agree that PSAB should fundamentally use an asset and liability approach. We agree that previous proposals that suggested a hybrid or revenue/expense approach were limited. However, PSAS previously was a much clearer instance of the asset and liability approach. With the proposals, it has moved somewhat closer to a hybrid approach, in particular with allowing remeasurements and "accumulated other."

8. An asset and liability approach requires a clear concept of realization to distinguish among revenues and expenses and direct increases in net assets and remeasurements and "accumulated other" if these are also part of the model, and for the surplus/deficit indicator to retain its full accountability and transparency value. BC 8.13 explains that under the asset and liability model, financial statements are limited to economic phenomena of assets and liabilities and changes in these (revenues and expenses). We agree. However, the proposals do not necessarily follow this; otherwise unrealized remeasurements and accumulated other and direct changes to net asset would not be allowed. Because there was no revenue or deferred revenue, there cannot be an increase in an asset (ruling out unrealized fair value remeasurements) nor an increase in assets due to a direct credit to net assets. We are concerned about PSAB allowing departures from the asset and liability model, and not introducing or elaborating important concepts (such as realization) that are necessary when one moves away from a pure asset and liability model.

9. We note the proposals suggest that these allow for future flexibility. We agree with the need for flexibility. However, too much flexibility risks reducing the effectiveness of the standard setting process, and impairing consistency and comparability. For example, respondents to future exposure drafts may argue that an undesirable debit is an "accumulated other" rather than an operating expense, or they may argue that a particular liability is "non-financial" and therefore should be excluded from net financial liabilities. Additional concepts in the conceptual framework may help PSAB better evaluate such arguments, so transparency and accountability do not decline.

10. The proposals suggest that "accountability value" will guide future efforts in resolving some of the issues identified above. However, it is difficult to determine what is "accountability value." It is not clear how one can argue fair value remeasurements, or deferred revenue, should or should not be part of the statement of operations if the only principle is "accountability value." Various contradictory positions can be legitimately supported by "accountability value" and therefore it is not a sufficient sole principle for a conceptual framework to guide future standards. More guidance is needed.

11. We are concerned that the elements are derived from one single concept/element: an asset. Because the other elements are derived from one single underlying concept, the definitions tend to become circular and too interdependent. This causes the definitions to lose some meaning, specifically because they are defined only in terms of each other, rather than being

more independent concepts. Because we use a double entry system, there are at least two concepts occurring in every accounting entry. For example, an asset may be increased with a corresponding revenue, an asset and liability may be incurred at the same time, etc. However, defining only one element (an asset) and having every other element be defined based on that asset concept/definition creates a weakness in the framework, as it becomes difficult to determine what are non-assets i.e. liabilities, revenues, or direct increases in net assets. The "other" side of the accounting entry has lost some necessary conceptual meaning. This results in a diminished ability of the conceptual framework to help resolve questions as to whether something is a liability (and what "kind" of liability), or a revenue, or some kind of change in net assets, or a revaluation, or an "accumulated other."

12. We suggest that PSAB improve the proposals by better defining at least the following five elements: assets, liabilities, revenues, expenses, and net assets. We suggest PSAB consider starting its definitions with liability rather than assets. Starting with assets is useful for private sector entities whose ultimate goal is wealth (asset) maximization of the entity, which is wealth (asset) maximization of the entity's owners. However, as the proposals emphasize, the nature of a public sector entity is fundamentally different: it is to provide/deliver services. There is a separation between assets used in service delivery and how those assets are financed: public sector does not have return on invested capital. Public sector entities do not usually generate cash from their tangible capital assets. In this sense, revenue and liabilities "fund" or "drive" the delivery of services, either via an expense (delivery of a service) or a capital asset (support infrastructure useful to citizens/stakeholders of the public sector entity also used to deliver services). By starting with the definition of a liability – in the sense of obligation to deliver services to stakeholders – and proceeding from that, PSAB can better incorporate the fundamental differences between the public and private sector. Note that starting with a definition of a liability may help resolve some of the issues we note with liabilities below.

13. In CF chapter 9, regarding the measurement attribute, we believe that historical cost should be the primary measurement attribute, with the addition that fair value remeasurements that are other than temporary (for all assets and liabilities), including remeasurement gains or remeasurment losses, could be recognized within a historical cost framework.

14. We encourage PSAB to explore whether the concept of "other than temporary" may be applied to both remeasurement gains and losses. We note that a conservativism (prudence) test is not applied for including fair value adjustments for gains in asset/liability balances on the statement of financial position – the unrealized gains are considered to be as real as the unrealized losses. However, other than temporary losses are considered "real" and recorded in surplus. Perhaps PSAS should not make such a distinction between other than temporary losses and other than temporary gains, and instead allow other than temporary unrealized gains to also be recognized in the statement of operations and surplus.

15. Accountability value is preserved and promoted by allowing other that temporary gains as well as losses to be recognized in surplus, because an enduring increase in value of an asset is as real as an enduring loss. In contrast, temporary fluctuations arguably reduce accountability value because management has little control over them, and they may lack useful information

value because they may reverse. The issue is made more problematic for those financial instruments for which their valuation is correlated with volatility: a public sector entity may take on greater risk in a portfolio investment (with exposure to greater volatility in value at measuring date) mitigated by the entity's ability to hold the investment in the long term. Quoted market prices at the financial statement date will provide the fair value for the investment at that point in time, but may not represent the value management will be able to realize on the investment.

16. The concept of "other than temporary" is present in the standards where a loss in a portfolio investment, if considered other than temporary, is recognized into surplus, and also reflected in the amortization of experience gains/losses in pension accounting which smooths out shorter term changes to reflect more enduring experience and changes in the valuation of pension obligations. The concept was also reflected in the previous accounting for foreign exchange gains/losses where offsetting gains/losses would smooth out over the life of the asset/liability – becoming more pronounced closer to the maturity/settlement date.

17. Recognition of both other than temporary gains and losses, including remeasurements, may help deal with the volatility that keeps remeasurement gains and losses out of the statement of operations and the net debt indicator, because both "other than temporary" remeasurement gains or losses would be included in operations, not remeasurement gains and losses. This would separate less volatile (enduring) gains and losses from the more volatile recent fluctuations – allowing users a better understanding of how much of the remeasurements in value reflect enduring changes in value that should be considered realized and how much are still volatile and uncertain. It may also help gain acceptance for the conceptual framework and presentation standards, and the new financial instrument standards, if gains and losses were treated consistently (not favoring one over the other) and acknowledged that write-downs may eventually be reversed, if they are later found to be not other than temporary.

18. Acceptance of enduring (other than temporary) gains being recognized in surplus on the statement of operations, just as enduring (other than temporary) losses have been, provides an opportunity to re-evaluate the accountability value that the residual short-term volatility that remains in remeasurement gains and losses adds to the financial statements. For example, PSAB may consider the enduring increased value of a portfolio investment to be a more reliable measure of its value, without the short-term noise of market volatility, and relegate short term volatility in market values to note disclosure. If this approach were to be adopted (with a return to amortizing foreign currency revaluations), explanation of the remeasurements in the statement of change in net assets would not be necessary. Without remeasurement gains and losses, we also note there may no longer be a need for a separate statement of change in net financial liabilities, allowing the net debt indicator to remain on the statement of financial position, and more clearly preserve PSAB's asset and liability model and the "clean surplus" approach.

Specific comments on the main proposals

We provide comments below on proposed changes to the reporting model. We organized the section below according to the main topics in PSAB's March 10, 2021 presentation.

New 3rd component of net assets: accumulated other

19. We note the flexibility that "accumulated other" provides in dealing with particularly difficult issues, such as endowments or Crown assets. However, we do not agree with the "accumulated other" concept, without more precise concepts of net assets, control and realization being included in the conceptual framework. We believe net assets may need to be independently defined as an element, rather than defined as a residual of other elements, if it is going to be something other than the mathematical accumulation of prior surplus/deficits. We agree that it is not as straightforward to define "net assets" as for private sector organizations, or even for not-for-profit organizations. However, we believe it is important to independently define because it may help resolve other conceptual issues.

20. In our view "accumulated other" results from a vagueness in the concept of "control" that is in the definition of asset. This is best illustrated with accounting for endowments. We note that the conceptual framework has not resolved whether endowment contributions are revenue (that would be on the statement of operations), but we also do not think that endowments (or other matters, such as Crown assets) necessarily merit creation of "accumulated other". If a pure asset/liability model is used, with the concept of realization, perhaps endowments would not meet criteria for recognition as assets and may be better presented as trust funds under administration. If the entity is not free to use the endowment fund as it chooses, how does the entity have "control" of the asset? We note this also has implications for restricted assets PS 3100, and government transfers and revenue accounting, where the "performance obligation" concept seems to be recognizing that the control over the asset is incomplete, or has not yet been realized, before recognition of revenue occurs. It may be that an entity should not record the asset unless it has (or will have as a result of its actions) unencumbered control. If this will never occur for some items, such as may be the case for endowments, perhaps PSAB should consider these as trust assets with restrictions under administration, that are not recognized in the entity's financial statements. We agree with recognition of the asset, and deferral of revenue, when the entity has the ability to remove the restrictions, and retain the asset, through its own actions, as is the case with capital transfers.

21. We suggest that PSAB adopt a fundamental recognition and measurement principle that all accounting requires at least two of the conceptual framework elements[1]. For example, an asset would only be recognized if a corresponding liability, revenue or net asset is also recognized.

22. If PSAB is to follow a more hybrid model with increases or decreases to assets and liabilities that do not immediately correspond to revenues or expenses i.e. remeasurement gains and losses, or accumulated other, then the framework should more clearly articulate where and why (beyond "accountability value") it deviates from an asset/liability model, and how it would be determined whether additional items should be deferred for later recognition, or recognized in surplus/deficit for the period. We refer to this as "realization."

[1] Except for reclassifications between captions with elements e.g. accounts receivable to cash.

23. We suggest the proposals include the concept of "realization." Realization is distinct from recognition. "Realization" should be defined in the conceptual framework such that it can be used to clearly determine whether and when an item is included on the statement of operations or directly in net assets. In our view, how the draft Conceptual Framework 8.23-8.27 defines revenue and expenses (as an increase or decrease in net assets) may not be sufficient to determine if a credit or debit is a revenue or expense that should first be on the statement of operations (and then in net assets), or something "unrealized" that is directly in net assets, or something to be realized directly into net assets. With a "clean surplus model" (where the only changes in net assets are surplus) which is more associated with a "pure" assets and liability approach, this issue does not arise. The examples in 8.24 and 8.26 are not sufficient because they are merely examples, not concepts.

24. Proposed 1202.081-.083 and 1202.135, along with existing PS 3400, may not be not sufficient as "realization" concepts. They require that items would not be reclassified from net assets to the statement of operations unless there was a clear and objective basis for identifying the period in which the classification should occur and the amount involved. We agree with this requirement, but believe it is not sufficient to guide future standard setters or financial statement preparers in determining which approach should be followed in recognition, including matching, consumption, culmination of a service delivery process, agreement to budget, satisfaction of a performance obligation, systematic and rational (usually consider straight-line), etc.

25. Proposed PS 1202.115 and PS 1202.116 state that all revenues and expenses are recognized in the statement of operations unless a standard requires otherwise, and some standards may specify circumstances when a revenue and expense are outside a period's statement of operations. Our concern is that without a clearer concept of "realization" to guide application of PS 1202.115, over time standards may lack consistency. It will be difficult to argue from concepts and principles within the due process of setting standards what is the most appropriate accounting without shared concepts of realization (as would be defined in the conceptual framework). Successor Public Sector Accounting Boards may make different decisions over time across standards as to what should be in surplus/deficit and what should be directly recognized in net assets. Arguments by analogy (although specifically prohibited by PSAB in the proposals) may become unavoidable if/when "accumulated other" becomes used in several standards, especially if the "Introduction to public sector standards" still contains paragraph 27, which recognizes that "no rule of general application can be phrased to suit all circumstances" and allows for exercise of professional judgment. Surplus or deficit, one of the most important indicators of a public sector entity, may lose its strong conceptual foundation, and therefore diminish accountability.

26. Specifically, the proposals could better clarify what concepts are being applied when an item moves among categories of net assets. For example, unrealized remeasurement gains and losses move to accumulated surplus through the statement of operations. Do all items in accumulated surplus also move through the statement of operations into accumulated surplus? Alternatively, can some items (i.e. endowments perhaps) move among categories in accumulated surplus without passing through the statement of operations? Could items also move out of accumulated surplus back into financial liabilities or non-financial liabilities? It

would be better to have more defined concepts to guide PSAB's future thinking on this, beyond "accountability value."

27. "Accountability value" may be too vague as a concept to support a clear realization concept. A much more explicit and developed concept of realization would be useful. A more developed realization concept may draw upon elements of the concept of "defer and match," or "culmination of the operating process" or "satisfaction of a performance obligation" or some other foundation. Other frameworks support "defer and match" including IAS 20, and Canadian ASPE (3800). IAS 20.17 states "In most cases the periods over which an entity recognizes the costs or expenses related to a government grant are readily ascertainable." The proposals could adopt an approach like IPSAS's "other resources" and "other obligations," which we acknowledge are not elements, but also better preserve transparency because it is possible for users to see within assets and liabilities which are the "other" items, rather than these being netted into "accumulated other." Some of these items in accumulated other, especially those that do not soon settle to surplus/deficit, may have long lives (or perpetual lives), and over time, as they accumulate into one "accumulated other" number, losing economic meaning, or have several accumulated others (as 1202.BC.048 explains), further moving PSAS towards fund accounting. It is not clear how the PS 1202.136 requirement, to report the fact of revenue or expense permanently reported outside of surplus or deficit, would practically be implemented for many disparate "permanent items" that would accumulate over the time, especially if PS 1202.136 implies their nature, extent and "permanence" is disclosed. These are beyond presentation issues (as CF BC8.16 notes) and are fundamental conceptual issues within the asset/liability model. We note the concept of "realization uncertainty" in CF 9.11-9.17 is distinct from but related to what we are suggesting here and CF 9.11-9.17 are not sufficient to deal with the lack of a comprehensive "realization" concept incorporated into the conceptual framework.

28. To reinforce, due to some vagueness in the concept of "control", net assets not being defined independently but as a residual, and lack of a realization concept, "net assets" risks becoming a "catch all" for a variety of unrelated things and surplus/deficit may over time lose accountability value. Except for correction of errors, it should not be possible for items in net assets to move out of net assets and into the statement of operations or liabilities. We note that rather than "accumulated other" items, perhaps an additional element "unrealized items" may provide flexibility without compromising net assets (assets = liabilities + unrealized items + net assets). The proposals could require disclosures such as nature of unrealized items and changes in unrealized items. Such an approach preserves the essential concept that what is in the net assets of an entity is actually its accumulated surplus or deficit, and users do not need to be concerned that net assets will fluctuate without an actual transaction occurring due to volatility of unrealized gains/losses. We realize this "shifts" the issue to other parts of the statement of financial position, or perhaps to an "intermediate" area of "unrealized items" between total liabilities and net assets, but in our view it makes it much more transparent, especially if "other resources" and "other obligations" disclosures similar to PS 1202.143 (for accumulated other) are required. Net assets (surplus) would be defined as items that are realized (with a clearly developed real0ization concept), and at least two elements would be needed to be met for recognition.

29. PS 1202.144 states that "accumulated other" transactions and events designated by PSAB will be "in individual standards." We note that PS 1202.145 states that as transactions and other events are reflected in accumulated other, "this Section will be updated." We are unsure what the updates to the Section will be: a list of standards that allow "accumulated other," or something in PS 1202, or perhaps more fundamentally, it may be what is meant instead is that the "conceptual framework" will be updated. It could be that some of the more difficult issues that accumulated other is designed to allow flexibility for would, upon a standards-level project, result in other changes to the conceptual framework, such as we have suggested above (new element, more precise realization concept). Although it would be unusual for a standards-level project to consequentially amend the conceptual framework, PSAB could acknowledge this in the conceptual framework itself.

30. PSAB should also consider consequential amendments are necessary that would remove the inconsistency between government transfers and restricted assets (noted in PS 1202 footnote 18). PS 1202 footnote 23 seems to amend PS 3100 but uses the unclear language of "it may be possible to analogize to PS 3410." It is not clear given footnote 23 whether or not revenue could be deferred over the life of an asset which was purchased with restricted assets. The statement in footnote 18 that revenue could not be deferred over the life of the asset is too restrictive (restrictions on the contribution may be met over this period of time).

Restructured statement of financial position

31. We support the restructured statement of financial position. We agree with the categories "total assets" and "total liabilities." We also agree with the split between financial and non-financial for each of these elements, however we have some concerns which we note herein.

32. With the restructured statement of financial position, public sector entity financial statements will report a new indicator – total assets. We encourage PSAB to fully develop within its conceptual framework the accountability value of this new indicator. It may represent total (gross) service potential of the entity and there may be stakeholder decisions or specific accountabilities that arise from it.

33. In our view, showing the components of net assets directly on the statement of financial position makes the statement less readable and understandable. It introduces a breakdown of net assets into something like fund accounting, but does not show which assets and liabilities are reflected in each "fund." We believe the only component of net assets should be accumulated surplus or deficit. If kept, the other items (remeasurements and accumulated other) should be placed elsewhere, as "something" between total liabilities and net assets. We agree with PSAB not adopting the approach of IPSAS which recognizes "other resources" and "other obligations."

Amended non-financial asset definition

34. We agree that a concept of non-financial assets is a useful distinction for public sector entities. It allows users to see the investment in service generating or service providing assets of the entity.

35. There are important and specific accountabilities of public sector entities with respect to non-financial assets, including their use in service delivery, proper and adequate maintenance, and safeguarding. Therefore, non-financial assets should not be defined as what are simply not financial assets, but instead should be defined on their own. The definition should be such that the categories of financial and non-financial assets are distinct.

36. We are concerned with the definition of non-financial assets as "assets that do not meet the definition of financial assets" because it is not clear what part of the definition is not being met. In PS 1202.045 the definition of a financial asset is "an asset that could be used to discharge existing financial liabilities or spend on future operations and is not for consumption in the normal course of operations." So what part of the definition does a non-financial asset not meet? That it is an asset that could not be used to discharge existing financial liabilities? Or that it could be used to discharge existing non-financial liabilities? To illustrate, accounts receivable by itself could not be used to discharge existing liabilities (they would need to be collected or factored first) or could not be spent on future operations (until they are collected), even though accounts receivable is not for consumption in the normal course of operations; accounts receivable meets part of the definition of financial asset (i.e. it is not for consumption) but does not meet other parts of the definition. Conversely, land could be used to discharge existing liabilities or spent (granted/sold) on future operations and is not for consumption in the normal course of operations, so could meet the financial asset definition.

37. We note that the restructured statement of financial position will have a net assets or net liabilities indicator at the bottom. We also note that there will be a statement of net financial assets or net financial liabilities. But there is a potential for these terms to be used interchangeably, or perhaps even confused. The terms "net liabilities" and "net financial liabilities" will differ, in general, by the amount of tangible capital assets, which may be substantial for many public sector entities. Under extant PSAS there is much less risk of this because of the structure of the statement of financial position, because net debt is on the statement of financial position, and because "accumulated deficit" may be used instead of "net liabilities." As we propose elsewhere, we believe net assets should be reserved only for accumulated surplus/deficit, so PSAB could consider retaining the term accumulated surplus/deficit for the bottom line of the statement of financial position, to adequately distinguish it from "net financial liabilities."

Financial and non-financial liabilities

38. We agree with the concept of non-financial liabilities, but suggest the definition should be improved. The definition in PS 1202.084 that the obligation "cannot" be settled with financial assets can be improved because any liability can be settled with financial assets (i.e. cash). If liabilities are in two categories (financial and non-financial), and if non-financial is something that cannot be settled through the use of financial assets, then logically financial liabilities are what can only be settled through the use of a financial asset. If there are liabilities that can be settled through either financial or non-financial assets, are these financial or non-financial liabilities? Either one category should be designated as the default

for liabilities that can be settled with either financial or non-financial assets, or three categories of liabilities are needed (liabilities that can only be settled through financial assets, liabilities that cannot be settled with financial assets, and liabilities that may be settled with either financial or non-financial assets, at the option of the public sector entity).

39. We note the proposed narrow definition of non-financial liabilities may prohibit the non-financial liability category being used, specifically for particular capital transfer liabilities under PS 3410. This may be counter to what PSAB intends with the category of non-financial liabilities. Capital transfer liabilities often arise from stipulations that require repayment of the capital transfer or payment of financial penalties if the asset is not used as stipulated. Because these would be settlements of the liability with financial assets, the proposals may not allow the "non-financial liability" category to be used. In particular, PS 1202.086 states that the non-financial liability cannot be settled through the normal operations of the entity. But it is not clear how use of an asset (amortization) would not be normal operations of an entity, and what other bases for settlement of a non-financial liability PSAB intends. We note that consequential amendments proposed to PS 3410.23A state a capital transfer for purpose of acquiring or developing a tangible capital asset used to provide services would be a non-financial liability. But it is unclear when PS 3410.23A applies. Does PS 3410.23A only apply if the transfer stipulations do not specify a penalty for non-use of the asset? What if other stipulations indicate that the 'liability' could be settled through financial assets?

40. We illustrate our concern below with the definitions of financial and non-financial liabilities, which do not lead to binary classification as they are both restrictive.

		Liability may be settled with		
		Financial assets only	Either Financial or Non-Financial Assets	Non-Financial Assets only
Expected to be settled with	Financial Assets	Financial Liability	Financial Liability	
	Non-Financial Assets		Other Liability	Non-financial Liability
	Not sure		Other Liability	

Shaded cells note combinations that seem not possible with the proposals. Note that for two of the combinations, the liability would be neither a financial nor a non-financial liability. So it seems there is a third "other liability" category, or at least several unclear matters:

- If an entity could settle a liability with a non-financial asset or with a cash payout, is it by definition not a non-financial liability as they must be settled only with non-financial assets?
- If an entity is not sure whether financial or non-financial assets will be used to settle the liability, then is it not "expected" that financial assets will be used, so not a financial liability?

- If an entity could use either financial or non-financial assets to settle the liability, and plans to use non-financial assets, is the liability financial or non-financial?

41. The proposals should clearly describe the accountability value of non-financial liabilities. As noted elsewhere, we suggest it is best explained if combined with the realization concept, at least for non-financial liabilities for which "revenue" hasn't yet been realized. They may be better described as "liabilities which will settle to revenue."

Net debt, revised net debt calculation, and removing statement of changes in net debt

42. We agree with relocating net debt to its own statement. We believe the statement of net financial liabilities is useful in providing the net debt indicator. We support the future flexibility it provides, to remove items that are in assets or liabilities on the statement of financial position from the calculation of net financial assets or liabilities. However, we caution that PSAB may need a better conceptualization of the use of the net financial liabilities indicator to prevent exceptions that would dilute the accountability value of the net financial liabilities indicator. For example, conceivably actuarial changes in pension obligations should be excluded, or changes in asset retirement obligations, or restricted financial assets such as endowments, or unrealized remeasurements.

43. Regarding the statement of change in net debt being no longer required, we note that information regarding non-financial performance with respect to capital maintenance and service capacity would no longer be reported with sufficient prominence: the comparison of actual capital expenditures to budgeted capital expenditures and the comparison of capital expenditures to amortization are key indicators of the entity's non-financial (capital maintenance) performance. Disclosing this information in a note may not be sufficient. We believe that the statement of change in net financial assets or liabilities should be required disclosure.

44. We believe net debt is a key financial sustainability indicator. We recognize PSAB is dealing with how to keep a fundamental performance measure in the financial statements with increased complexity on the statement of financial position caused by non-financial liabilities, as well as other issues such as net debt volatility (beyond control of an entity) due to (fair value) remeasurements. We note that the proposals attempt to maintain the "original meaning" of net debt indicator. However, the proposals have not resolved the debate about whether the statement should emphasize the net debt indicator or the performance of the public sector entity in managing its finances (i.e. excluding components of net financial liabilities that are more volatile and not derived directly from management decisions).

45. We disagree with the PS 1202.103 wording that is proposed to be added to the statement of net financial liabilities. We note that PS 1202.103 states the explanation "could be as follows" but it is not clear when an entity would include language other than what is in PS 1202.103, or what would prevent financial statement discussion & analysis (FSDA) type of discussion from being added, in effect "editorializing" the primary statement. One problem with describing net financial liabilities as a lien is that it may be legislative non-compliance for a particular public sector entity to issue liens, or guarantees, or similar such instruments.

We are also unclear who the holder of the lien is (present or future citizens?), and what happens if the lien is exercised. (We realize it is not an actual lien, but either lien should be put into "lien" quotes or the language should explain it really isn't a lien). The wording is also ideological: a less ideological wording would be "net financial liabilities represent the amount by which the public sector entity has not obtained sufficient revenues from individuals and organizations, for the costs of the services they have received."

46. We support that the statement of net financial liabilities or net financial assets disclose which financial liabilities or financial assets are included if they are not the same as the financial assets and financial liabilities on the statement of financial position. We note that this may become complicated and require a reconciliation. For example, if in the future PSAB determines to exclude fair value remeasurements from the statement of net financial assets, then a reconciliation would be useful. An alternative would be further subtotals on the statement of financial position e.g. Assets, then Financial Assets, then Financial assets included in net debt, then Financial Assets not included in net debt, then Non-financial assets, then Total assets.

New statement of change in net assets

47. We agree with the new statement of change in net assets. We believe that a statement of change in net assets is necessary given the rest of the proposals. However, in our view the statement of change in net assets indicates some limitations in the proposals.

48. The statement of change in net assets should be very straightforward: it should be opening net assets, plus realized items (i.e. surplus), with any adjustments such as corrections of errors. Instead, the proposed statement of change in net assets includes many other things, such as accumulated remeasurement gains and losses and accumulated other. We believe that net assets should be kept conceptually precise: it should be limited to realized items. Items should not come out of net assets and move into either assets or liabilities, or revenue or expense. Users should be able to trust that the net assets number is what it says it is: net assets. More precision in the conceptual framework would result from defining net assets as its own element, that is not a residual, and further defining the concept of "realization" as we note elsewhere.

49. We disagree with having "components" of net assets, as this mixes both unrealized and realized amounts. In our view, to preserve more of the asset/liability model and a "clean surplus" approach to net assets several items that are currently in net assets, such as accumulated other and remeasurement gains and losses, should be moved to a separate area of the statement of financial position, after Total Liabilities, called "Unrealized items and other." The separate breakdown of components of net assets on the statement of financial position would then be unnecessary. We also note that in the illustrated financial statements in PS 1202 appendices, "Net assets" should be of the same prominence as "ASSETS" and "LIABILITIES" and therefore should be in all caps "NET ASSETS."

Statement of cash flows

50. We support the proposed statement of cash flows. However, we disagree with the subtotal before cash flows from financing. If a subtotal is necessary on the statement of cash flows, we suggest the subtotal is shown after operating and capital, and before investing and financing. Operating and capital activities are the main activities of a public sector entity providing services to its stakeholders. How these operating and capital activities are funded may be through operations themselves (i.e. surplus), through sale of investments, or through incurring debt. Similarly, cash that remains after operations and capital have been paid for can be used to buy investments or repay debt. Therefore, the key subtotal in the statement of cash flows, if any subtotal is going to be added, should be cash provided by or used by operating and capital activities.

New budget requirements, legislation and legislative authorities

51. We agree with the main proposals regarding budget and authorities, and include the following suggestions. We note that 1202 now includes several requirements for budgets and suggest PSAB consider whether a separate standard within PSAS, budget to actual comparisons, may be more appropriate for these requirements and guidance.

52. We disagree that an amended or new budget should be prepared when the "government" changes. When a "government" changes, a fiscal year end is not triggered: the "new" government becomes accountable for all the financial decisions that the public sector entity's financial statements will report on for that period in which the change occurs, not just transactions occurring from the date the government "changed." There is a "continuity" of the public sector reporting entity. The budget originally approved by the public sector should be the budget presented in the financial statements. We also disagree with PS 1202.198 (b) for the same reasons with respect to change in officials of the governing body of a government organization; the original budget should be used for comparison in the financial statements.

53. As 1202.190 states, the original budget is "the budget for which an entity is held accountable." We note the "entity" is still the public sector entity before and after the change in elected officials. With respect to permitting an amended budget when the "government" changes due to an election, in our view this indicates that PSAB considers the "government" i.e. elected officials, to be part of the public sector entity. The elected officials have changed, so the budget of the public sector entity merits being changed. However, elsewhere the proposals state that financial reporting provides accountability-relevant information to the public and their elected representatives, which indicates that the elected representatives are separate from the "government" and are users of the financial reporting. If elected officials are not part of the public sector entity, it is not clear why a change in the elected officials would merit an amended budget. The proposals could explain why elected officials are considered part of the public sector entity for some aspects of accountability and not part of the public sector entity for other aspects of accountability.

54. We note a change in elected officials could occur any time, including up to or perhaps even after a year end. Allowing an amended budget as proposed may then reduce the

accountability value of budget to actual comparisons if the budget would be prepared at the same time as the financial statements.

55. We support the proposals for adjusting the budget to a GAAP basis if necessary as in 1202.194. However, we suggest PSAB consider the following, perhaps as amendments to SORPs: When it is necessary for a budget to be restated to GAAP, disclosure is encouraged for the public sector entity to explain why the budget was not prepared on a GAAP basis, which other comparable public sector entities also prepare their budget on a non-GAAP basis, and how the non-GAAP budget serves accountability purposes. This is similar to practices in the private sector regarding use of non-GAAP measures.

56. Paragraph 1202.190 says the original budget is the budget originally planned at or near the beginning of the accounting period. This presupposes a planning cycle in which an entity prepares and approves a budget at or near the beginning of the reporting period. This may not be the case as some public sector entities may be able to operate for extended periods of time without a budget, and may therefore approve a budget at or near the end of the accounting period. (We note that PSAB should clarify whether in this circumstance the authorities for spending that are being used constitute a "budget" and in general to what degree a budget may depart from PSAS and still be considered "prepared" as used in PS 1202.196). The date at which the budget was approved and the dates the budget is amended are useful disclosures so users understand if the budget was approved at or near the beginning of the period or much later.

57. PS 1202.194, footnote 31, states that the scope of the budget would be considered different from the scope of the financial statements if a material entity or program is not included in the reporting entity's approved budget. This would require restatement of the budget. We agree that not including a material entity is a scope difference, but we note that public sector entities may announce new programs through the period as a matter of course, so we disagree that new programs should be considered scope differences. PSAB should remove the words "or program" from footnote 31.

58. PS 1202.197 requires that if a reporting entity does not have a budget for a material controlled entity, the reporting entity is not considered to have a budget and so the budget is not presented in the financial statements. In our view, this may reduce accountability to the reporting entity's budget that was prepared. We note that the stand-alone budgets of controlled entities may typically include inter-entity transactions which are routinely eliminated in the budget of the reporting entity, so the budgets of the controlled entities are already being "amended" or "adjusted" when being combined at the reporting entity level. We suggest instead that 1202 requires the reporting entity to prepare the appropriate budget (for this controlled entity) for the reporting entity's financial statement purposes. Being able to create a budget for the reporting entity's financial statement purposes is consistent with the definition of control that the reporting entity has over the controlled entity. We agree that in the financial statements of the controlled entity, no budget would be presented.

59. We note a concern with CF 10.25 and PS 1202.020 where disclosure is required by legislation of information that is inconsistent with standards or the conceptual framework. It

is not clear whether these would be departures from PSAS GAAP (perhaps leading to a qualification in an independent auditor's report as well), or not PSAS GAAP departures because they are specifically required to be in the disclosures by proposed CF10.25 and PS 1202.020.

60. Regarding disclosing non-compliance with financial authorities, paragraph CF 6.32 says financial statements should provide information regarding whether the entity's activities were administered in accordance with "requirements and limits" established by authorities, but the next sentence in 6.32 says "were not carried out within the limits authorized by the financial authorities." It would be better to state "were not carried out within the requirements and limits authorized by the financial authorities" because there may be requirements not met that are still within limits (e.g. issuing foreign debt may not be allowed, but issuing Canadian debt may be).

61. We suggest PSAB clarify in 1202 whether reporting on legislative authorities are for the consolidated government reporting entity, or all entities within the government reporting entity. For example, a controlled entity may have exceeded its spending authority. It is not clear if that means the consolidated government reporting entity itself has exceeded its spending authority, particularly because what is an external restriction at the controlled entity level may be an internal restriction (or not a restriction at all, at the level of the consolidated budget of the government reporting entity) at the government reporting entity level.

Other comments on specific areas

We provide below our comments on various specific areas in the proposals.

Risk disclosures

62. We agree with the proposed risk disclosures. However, we note that PSAB should avoid duplication with risks and other disclosures that would be more appropriately reported under the SORPs in financial statement discussion and analysis.

Subtotals in the statements

63. PS 1202.37 and .38 introduce subtotals to the financial statements. We agree with the proposal but suggest additional guidance be provided on their use. For example, an entity could propose a subtotal of "controllable expenses" and "uncontrollable expenses." We suggest additional guidance be provided on use of subtotals, which may be achieved by including the footnoted requirements (in CF 10.24) directly in PS 1202.37, and better explaining what "accountability value" in CF 10.24 (d) means in the context of subtotals.

Share capital

64. We agree with the concept of share capital being added to the proposals. We note that PSAB may consider adding a project to define specific issues associated with accounting for public sector entities with share capital.

Crown assets exclusions

65. We do not agree conceptually with the recognition exclusions (e.g. natural resources, assets in right-of-Crown or intangibles). Recognition of these assets promotes stewardship for their use and also full accounting for when these public assets are sold or disposed of, as well as consideration of retirement obligations associated with these assets. However, we agree there are significant issues involved with their recognition, valuation and measurement. Further research is needed. We think there are specific amendments that could be made to PSAS at this time, including that transfers of assets that have not been recognized in the financial statements (for example, Crown land) should be recognized in the financial statements at the fair value of the land (i.e. revenue for the recognition of the land at fair value, and expense to recognize its transfer). Showing the value of Crown assets transferred promotes stewardship by making the government or public sector entity accountable for its use, maintenance and disposal of Crown assets.

66. We noted earlier our concerns with "accumulated other." We caution that "accumulated other" may not provide PSAB with the ability to deal with issues in the future such as heritage resources, intangibles, and natural capital (as 1202.BC.043(b)(v) indicates). To illustrate, PSAB may anticipate (following 1202.BC.048) using "accumulated other" for initial recognition of Crown assets, with the credit going to accumulated other, bypassing surplus/deficit so surplus/deficit is not "distorted." However, accounting for subsequent transactions is more complicated if accumulated other is used; the accounting is not as complicated if all inflows and outflows are through the statement of operations (or if considered a new accounting policy, retroactive with restatement could be used on initial recognition). These Crown assets may be used, exchanged, transferred, or depleted through a number of activities. Would royalties received from use or sale of the Crown assets also bypass surplus/deficit? Would a "depletion" of the Crown asset be recognized to surplus/deficit or also bypass surplus/deficit? Would changes in value of the Crown asset be part of surplus/deficit or kept in accumulated other until "realized?" Or would the Crown asset be treated like a "fund" where there is the initial set-up of the fund (recognition of the Crown asset bypassing surplus/deficit), and then inter-fund transfers between the "Crown asset fund" in accumulated other(s) and the unrestricted accumulated surplus/deficit, for ongoing depletion of the Crown asset as the asset is consumed via royalties? Our point is if PSAB is intending "accumulated other" to assist with complex accounting matters such as Crown assets, it should develop more clearly a view of the probable resolution of the complexities associated with these matters. "Accumulated other" may not be a solution, or may precipitate a return to fund accounting, as we noted earlier in our response.

Periodicity concept

67. The conceptual framework should describe the periodicity concept. It should explain how periodic annual reporting relates to accountability of an entity. It should also explain when, if ever, including more than or less than 12 months of results may be appropriate. We also note in Chapter 7 the benefit versus cost considerations are connected to periodicity, because the cost to prepare financial information, as well as its benefit, is driven by how often it is prepared. PSAB could comment on matters such as quarterly reporting by public sector entities.

Control

68. We note a concern with the concept of control as described in CF 5.21-5.23. Control is described as something that has to be invoked. We understand that 5.22 is needed to bound consolidation of all entities a public sector entity may "control" given powers of a public sector entity to take control away from others. However, PS 1300.09 is clear that control exists regardless of whether it is exercised. To us "invoked" and "exercised" are likely the same meaning. Our concern is that together these could lead to inconsistencies in the application of the concept of control.

Going Concern

69. Regarding the going concern concept (CF 2.68-2.70 and 9.37-9.40), we note that with the implementation of PS 3430 it is unclear whether PSAS are going concern standards or also standards for entities that are not a going concern (such as a dissolved entity). The matter arises because of PS 3430.07 (h) which says a transferor may continue or cease to exist after the restructuring. We note the going concern concept, via CF 9.39, seems to co-mingle going concern with discontinued operations and restructurings. PS 1202.029 (a) states that going concern considerations include restructurings. We note that PSAS is not making any consequential amendments to PS 3430, yet PS 3430 as explained further in Basis for Conclusions (BFC) to PS 3430, paragraph 43, says because the assets and liabilities "continue" by the recipient then change of the measurement attribute is not appropriate. CF 9.40 perhaps contradicts this when it suggests the measurement attribute may need to be reconsidered if the going concern assumption becomes inappropriate. We suggest the proposals add guidance or consider consequential amendments to PS 3430 or PS 3430 BFC or other guidance as to what measurement attribute should be used (net realizable value, fair value, etc.) and in what "going concern" circumstances, and whether a public sector entity is still within PSAS or not if it changes its measurement attribute in a "non-going concern" circumstance.

Prudence

70. We believe improvements can be made to the concept of prudence. We understand conservatism could have been interpreted too far as understating assets or overstating liabilities, notwithstanding clear guidance in PS 1000.29(d) against this. But the objective is to not err at all. The way prudence is described may be problematic because it is characterized as a "state of mind" or "exercising caution." It is not clear how a "state of mind" or "exercising caution" can be evaluated by auditors or those charged with governance (if evaluating management) or stakeholders, other than with recourse to the concept of conservativism. Furthermore, as CF 7.45 describes prudence as "not understating or overstating financial statement elements" it is not able to be differentiated from neutrality or faithful representation which are already included as characteristics.

71. We note the change seems directed not against conservatism so much as against recognition uncertainty or measurement uncertainty. To illustrate, entities may "have a cautious mindset" in making any write-down to ensure they are not understating assets. For example, if an entity's investments fair value has been below carrying value for two years, the entity may argue that it is premature to take a write-down as the value may recover (prudence requires the entity to exercise caution to not understate its assets). CF 7.45 and .46 are not clear how

long an entity should wait to demonstrate it has exercised sufficient caution/prudence. Conservativism was a much clearer concept and the caution against using it to deliberately understate assets or overstate liabilities in existing PSAS was appropriate. We suggest that conservatism be retained as a qualitative characteristic.

72. As described in the proposals, in our view prudence is too similar to fair presentation. A public sector entity should neither deliberately overstate or understate assets or liabilities. Where there is recognition or measurement uncertainty, care should be taken to arrive at best estimates to achieve fair presentation, rather than applying additional caution until recognition or measurement uncertainty is resolved.

ESG disclosures

73. In line with including concepts in the proposals to provide PSAB a basis to deal with future reporting issues, we suggest PSAB consider whether and to what extent public sector financial statements should contain ESG (environmental, social, governance) disclosures, and include these as concepts in the conceptual framework.

Effective date

74. We agree with the proposed effective date because it gives preparers time. However, we believe PSAB should ensure PS 3450 and PS 2601 become effective, for entities that have not yet adopted it, at the same time as PS 1202. This will avoid having to adopt PS 1201 and then PS 1202.

Edits and editorial comments

We provide below various edits and editorial comments.

75. The detailed amendments state that the conceptual framework does not form part of GAAP. However, the amendments to the Introduction clarify that "the conceptual framework and these public sector standards" apply to the general purpose financial statements of public sector entities. PSAB should clarify whether entities would then refer to their financial statements as being prepared in accordance with "public sector accounting standards" or "the conceptual framework and public sector accounting standards." PS 2100.07 may need to be amended to state that entities disclose that "the financial statements have been prepared in accordance with the Canadian conceptual framework and public sector accounting standards."

76. In CF 2.66 (f) donations and contributions are considered non-exchange transactions. But as 2.21 indicates, there is an exchange component because donors receive a tax benefit (a charitable donation deduction/credit), which suggests there is an exchange nature to these transactions.

77. CF 3.31 use of "ideally" is unnecessary. PSAB has the ability to set standards for all of (a) through (d) and can achieve the "ideal" through its standards.

78. CF 5.01 should say “this conceptual framework sets out” rather than “a conceptual framework must set out” and 5.02 should refer to “PSAB” rather than “standard setters.”

79. In CF chapter 7 discussion of benefit versus cost, the proposals could add timeliness as a constraint.

80. In the illustration Appendix F, we note that the item “change pertaining to operating surplus (deficit) should be labelled “Surplus/deficit” unless this is meant to be the amounts in surplus/deficit that somehow relate to “net financial liabilities,” in which case amortization likely should not appear (amortization is non-financial). The term “operating surplus/deficit” is not defined elsewhere and it should be clear that this amount is the surplus or deficit from the statement of operations, or it should be explained how this amount is arrived at.

Thank you for the opportunity to comment.

Wayne Morgan
Colin Semotiuk
Ian Sneddon

Office of the Provincial Controller Division
Controllership Policy and Accounting Consultation

Province of Ontario's Response to PSAB's Exposure Draft: "Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202"

Maureen Buckley

Assistant Deputy Minister and Provincial Controller

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Following is the Province of Ontario's response to PSAB's Exposure Draft on Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202. Response to the specific question is provided below:

Do you agree with the consequential amendments outlined in this Exposure Draft?

Ontario does not agree with many proposals of PSAB included in the Reporting Model Exposure Draft and therefore the consequential amendments in relation to these proposals. This response letter does not repeat the concerns of Ontario in relation to the reporting model proposals and should therefore be read in conjunction with our Reporting Model Exposure Draft response letter. Ontario has the following additional comments regarding the proposed consequential amendments:

1. If PSAB moves on with making the changes to the net debt calculation, further consequential amendments are needed to REVENUE, Section PS 3400 to provide guidance with respect to the classification of financial and non-financial performance obligations, including examples, similar to the guidance that is included through consequential amendments in other standards such as GOVERNMENT TRANSFERS, Section PS 3410 or RESTRICTED ASSETS AND REVENUES, Section PS 3100. Please see specific concerns raised in our response to the Exposure Draft, Financial Statement Presentation, Proposed Section PS 1202. The level of guidance should be sufficient to reduce subjectivity in application.

2. FUNDS AND RESERVES, PSG-4 was amended to remove clarification on what the residual balance of the financial statements are, which currently is the ending accumulated surplus/deficit or the surplus/deficit for the period. Ontario does not agree with this amendment, as it is reflective of the issue of introducing components such as “accumulated other” to net assets, resulting in confusion as to what the “bottom line” of the financial statements is. If the reporting model is finalized as proposed, Ontario suggests adding an amendment to clarify what the new residual amount or “bottom line” would be.

3. FUNDS AND RESERVES, PSG-4 was amended to state that PS 1202.044 establishes that net assets or net liabilities is the indicator of net financial position, rather than net debt and accumulated surplus/deficit. This reduces accountability to users as they understand net debt and accumulated surplus/deficit to be the primary indicators of financial performance, and there is no guidance on what useful information the net assets or net liabilities amount provides.

Ontario appreciates the opportunity to respond to PSAB to assist in their deliberations on this matter. I would be pleased to elaborate on any of the above comments. Thank you for your consideration.

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Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

June 30, 2021

Dear Mr. Puskaric:

SUBJECT: Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202 (January 2021)

Grant Thornton LLP and Raymond Chabot Grant Thornton LLP (hereinafter "we") would like to thank you for the opportunity to provide comments on the Public Sector Accounting Board's (hereinafter the "PSAB") Exposure Draft entitled *Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202* (hereinafter the "ED"). We agree with all of the proposed consequential amendments outlined in the ED and have no further comments for the PSAB.

If you wish to discuss our response, please contact Melanie Joseph (Melanie.Joseph@ca.gt.com, 416-607-2736) and/or Stéphane Landry (landry.stephane@rcgt.com, 418-647-5008).

Yours sincerely,

Landry, CPA, CA

Grant Thornton LLP
Melanie Joseph, CPA, CA

Raymond Chabot Grant Thornton LLP
Stéphane Landry, CPA, CA

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June 30, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto ON M5V 3H2

Re: Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202

Dear Mr. Puskaric,

Thank you for the opportunity to provide comments on the Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202 exposure draft. Our comments are below.

Questions

1. **Do you agree with the consequential amendments outlined in this Exposure Draft?**

Yes, however, we have several concerns that we feel should be addressed before these amendments are made. These are outlined in our response to the exposure draft on Financial Statement Presentation.

Sincerely,

Robert E. Bourgeois, CPA, CA
Executive Director, Government Accounting
NS Dept of Finance and Treasury Board

Alberta Treasury Board and Finance

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June 30, 2021

Mr. Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
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277 Wellington Street West
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PSAB Exposure Draft: Consequential Amendments Arising from the Financial Statement Presentation Standard

Thank you for the opportunity to comment on this Exposure Draft. Consequential amendments are important in ensuring consistency within the standards themselves. We agree with the consequential amendments arising from the proposed Financial Statement Presentation standard, considering the concerns we addressed in the Exposure Draft on Financial Statement Presentation Standard, Proposed Section PS 1202.

Sincerely,

Dan Stadlwieser

Dan Stadlwieser
Controller

Exposure Draft: The Conceptual Framework for financial reporting in the Public Sector

Response - Government of the Northwest Territories (GNWT).

Question(s)

1. Do you agree with the concepts in the proposed Conceptual Framework?

The GNWT has no concerns with proposed Conceptual Framework.

Exposure Draft: Consequential Amendments Arising from the Proposed Conceptual Framework

Response - Government of the Northwest Territories (GNWT).

<u>Question(s)</u>

1. Do you agree with the proposed consequential amendments outlined in the Exposure Draft?

The GNWT has no concerns with proposed consequential amendments.

Additional comment(s):

Reliability definition (page 14) appears to be general in nature using “faithfully represented” rather than a more definitive “reliable estimate” from an accounting standpoint. How does one define “faithfully”?

Exposure Draft: Financial Statement Presentation, Proposed Section PS 1202

Response - Government of the Northwest Territories (GNWT).

Question(s)

1. Do you agree with the proposed new financial statement presentation standard?

The GNWT has a few concerns with the proposed consequential amendments listed below.

Additional comment(s):

The GNWT has concerns with the definition of non-financial asset, specifically section 0.60 (e) and how to quantify or value a non-financial asset that cannot be used to settle a financial liability or spend on future operations.

The use and adding the concept of Net Financial assets (net financial liabilities) in place of the current Net Debt on the Statement of Financial position may require engagement and educating users to fill any knowledge gaps, recognizing the elected and appointed officials may not have a sophisticated understanding of complex accounting standards. This change will impact financial ratios used to determine the financial health of the entity. Net debt was one of the indicators of financial health of most Governments. Net Financial Assets/Liabilities will be used as a proxy; however, comparability will be lost and being able to see pertinent information on one statement impacted for the users.

The placeholder of “Accumulated other” will lead to questions by users of the intent of the line item under that section. We understand the need to build a framework that can be used in future years and the need to put “Accumulated Other” as a line item. However, without defining what it is that will be reported under this line item, this might create confusion for users.

2. Do you agree with the effective date of April 1, 2024, to implement the financial statement presentation standard, Section PS 1202?

The GNWT has no concerns with implementation date of April 1, 2024

Additional comment(s):

There is a possible impact from the volume of information that entities (not for profit, NGOs, etc.) would need to review retroactively with the changes for comparability purposes where professional accounting capacity may be an issue with small not for profit or NGOs.

Exposure Draft: Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202

Response - Government of the Northwest Territories.

Question(s)

1. Do you agree with the proposed consequential amendments outlined in the Exposure Draft?

The GNWT has no general concerns with proposed consequential amendments.

Treasury Board Secretariat
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July 2, 2021

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
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mpuskaric@psabcanada.ca

Dear Mr. Puskaric:

Re: PSAB Exposure Draft: Consequential Amendments Arising From PS 1202

We would like to thank the Public Sector Accounting Board for the opportunity to comment on the Exposure Draft (ED) on *Consequential Amendments Arising From PS 1202.*

The Province of Manitoba (POM) agrees with the proposed consequential amendments outlined in the ED and the detailed amendments to the ED.

The POM is especially in favour of PS 3410.23A for recipient governments, This will be helpful to all controlled entities to whom the POM provides capital.

A liability arising from:

a) *an operating transfer would be presented as a financial liability;*

b) *a capital transfer for the purpose of acquiring or developing a tangible capital asset would be presented as a financial liability;*

c) *a capital transfer for the purpose of acquiring or developing a tangible capital asset for use in providing services for a defined number of years would:*

   (i) *initially be presented as a financial liability, as the capital transfer is received; and*

   (ii) *then reclassified to a non-financial liability as the tangible capital asset is acquired or developed;*

d) *a transfer of a tangible capital asset that is to be used to provide services for a defined number of years would be presented as a non-financial liability.*

Should PSAB have any comments or questions, please contact me at 204-471-5760 or via e-mail: Andrea.Saj@gov.mb.ca, Treasury Board Secretariat, Office of the Provincial Comptroller.

Yours truly,

Andrea Saj, CPA, CGA
Acting Provincial Comptroller
Government of Manitoba

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Montréal, le 30 juin 2021

Monsieur Michael Puskaric, CPA, CMA
Directeur, Comptabilité du secteur public
Conseil sur la comptabilité dans le secteur public
277, rue Wellington Ouest
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Monsieur,

Vous trouverez ci-joint les commentaires du Groupe de travail technique Secteur public – Comptabilité dans le secteur public de l'Ordre des comptables professionnels agréés du Québec, concernant l'exposé-sondage intitulé *« Modifications corrélatives au projet de chapitre SP 1202, Présentation des états financiers ».*

Nous vous serions reconnaissants de nous faire parvenir une copie de la traduction anglaise de nos commentaires.

Veuillez prendre note que ni l'Ordre des comptables professionnels agréés du Québec, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à leur utilisation et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires, comme décrit dans le déni de responsabilité joint à la présente.

Veuillez agréer, Monsieur Puskaric, mes salutations distinguées.

Annie Smargiassi, CPA auditrice, CA
Représentante du groupe de travail technique Secteur public – Comptabilité dans le secteur public

p. j. Déni de responsabilité et commentaires

DÉNI DE RESPONSABILITÉ

Les documents préparés par les groupes de travail de l'Ordre des comptables professionnels agréés du Québec (Ordre) ci-après appelés les « commentaires », sont fournis selon les conditions décrites dans la présente, pour faire connaître leur opinion sur des énoncés de principes, des documents de consultation, des exposés-sondages préliminaires ainsi que des exposés-sondages publiés par le Conseil des normes comptables, le Conseil des normes d'audit et de certification, le Conseil sur la comptabilité dans le secteur public, le Conseil sur la gestion des risques et la gouvernance et d'autres organismes.

Les commentaires fournis ne doivent pas être utilisés comme substitut à des missions confiées à des professionnels spécialisés. Il est important de noter que les lois, les normes et les règles sur lesquelles sont émis les commentaires peuvent changer en tout temps et que, dans certains cas, les commentaires écrits peuvent être sujets à controverse.

Ni l'Ordre, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à l'utilisation de ces commentaires et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires. Les commentaires donnés ne lient pas, par ailleurs, les membres des Groupes de travail de l'Ordre ou, de façon plus particulière, le Bureau du syndic de l'Ordre.

La personne qui se réfère ou utilise ces commentaires assume l'entière responsabilité de sa démarche ainsi que tous les risques liés à l'utilisation de ceux-ci. Elle consent à exonérer l'Ordre à l'égard de toute demande en dommages-intérêts qui pourrait être intentée par suite de toute décision qu'elle aurait pu prendre en fonction de ces commentaires. Elle reconnaît également avoir accepté de ne pas faire état de ces commentaires reçus via le Groupe de travail dans les avis exprimés ou les positions prises.

MANDAT DES GROUPES DE TRAVAIL

Les groupes de travail de l'Ordre des comptables professionnels agréés du Québec ont comme mandat notamment de recueillir et de canaliser le point de vue des praticiens exerçant en cabinet et de membres œuvrant dans les affaires, dans les services gouvernementaux, dans l'industrie et dans l'enseignement ainsi que le point de vue d'autres personnes concernées œuvrant dans des domaines d'expertise connexes.

Pour chaque exposé-sondage ou autre document étudié, les membres mettent leurs analyses en commun. Les commentaires ci-dessous reflètent les points de vue exprimés et, sauf indication contraire, ces commentaires ont fait l'objet d'un consensus parmi les membres des groupes de travail ayant participé à cette analyse.

Les commentaires formulés ne font l'objet d'aucune sanction de l'Ordre. Ils n'engagent pas la responsabilité de celui-ci.

QUESTION SPÉCIFIQUE DU CCSP

Appuyez-vous les modifications corrélatives proposées dans le présent exposé-sondage?

Les membres sont d'avis que le travail nécessaire à l'identification de toutes les modifications corrélatives représente un travail colossal qu'ils n'ont malheureusement pas été en mesure de réaliser.

Toutefois, ils appuient les modifications proposées, sous réserve des commentaires ci-dessous.

Les membres sont préoccupés par les changements terminologiques apportés au chapitre 3450 et par l'introduction des « actifs et passifs d'instruments financiers ». Les membres ont soulevé à nouveau leur préoccupation au sujet de l'utilisation de certains termes provenant de référentiels comptables applicables aux entités privées, notamment par l'utilisation des termes « actifs et passifs financiers » sur des éléments qui ont une définition distincte de celle utilisée dans le secteur privé. Ils auraient préféré que la terminologie relative aux instruments financiers soit plus proche de celle des normes du secteur privé et que la terminologie des éléments différents et des concepts distincts relatifs au secteur public soit plutôt changée.

Considérant les modifications corrélatives apportées au chapitre 3410, les membres sont d'avis que l'application de ces modalités sera lourde à suivre et à auditer et qu'elles nécessiteront un suivi particulièrement fastidieux pour certaines entités du secteur. Les membres demandent que ces concepts et modalités soient simplifiés.

Les membres se sont aussi demandé quelles informations devraient être fournies sur les changements dans la classification des rubriques des états financiers et au sujet des reclassements. Ils sont d'avis que l'exposé-sondage n'est pas clair au sujet de l'information à fournir pour considérer tous ces changements au sujet du modèle d'informations.

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

17 June 2021

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting Board
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

RE: Exposure Draft – *Consequential Amendments Arising from the Financial Statement Presentation, Proposed Section 1202*

Thank you for the opportunity to comment on the above Exposure Draft. I am responding on behalf of the Office of the Auditor General of Canada.

We are pleased to submit to the Board our response below to the specific question posed in the Exposure Draft.

Sincerely,

Lissa Lamarche, CPA, CA

Assistant Auditor General
Office of the Auditor General of Canada

Specific question posed by the Public Sector Accounting Board (PSAB):

<u>Question 1</u>

Do you agree with the proposed consequential amendments outlined in this Exposure Draft?

<u>OAG response:</u>

Yes, we agree with the proposed consequential amendments outlined in this Exposure Draft (ED). It should be noted that our response focuses on only those areas for which PSAB has proposed consequential amendments and does not consider whether additional consequential amendments may be required as a result of the proposed Financial Statement Presentation standard. If other areas are identified in the future, PSAB's annual improvements process could be used to make further consequential amendments as needed. On that basis, we have identified some additional amendments for PSAB to consider as it finalizes its deliberations on this ED.

PSA Section	Paragraph Reference	Comments
PS 3060, *Interests in partnerships*	PS 3060.57	The proposed amendment states (new proposed wording <u>underlined</u>): "*Deferred gains arising from the public sector entity's investment of assets in the partnership should be reported with <u>financial</u> liabilities…*" A financial liability is defined in the proposed financial statement presentation standard as "a liability that is expected to be settled using financial assets". It is difficult to see how a deferred gain, which is either recognized when a partnership other than a business partnership is dissolved as per PS 3060.45 or in the case of a business partnership is amortized to net operating results over the life of the invested assets as per PS 3060.47, is expected to be settled using financial assets. We think it would be helpful to include the reason this is considered a financial liability.
PS 3230, *Long-term debt*	PS 3230.01	The proposed amendment to this paragraph states (new proposed wording <u>underlined</u> and ~~deleted~~): "…It does not address the presentation and disclosure of other long-term

		obligations of a government. General guidance regarding the presentation and disclosure of a government's financial liabilities is provided in FINANCIAL STATEMENT PRESENTATION paragraphs PS ~~1201.044-.048~~ 1202.073-.083…" Since the context of this paragraph is discussing "other long-term obligations", consider whether a reference should also be made to non-financial liabilities or whether other long-term obligations should specify that they only refer to financial obligations.
PS 3450, *Financial instruments*	PS 3450.A8 and .A57	These paragraphs currently include references to financial assets for which there is no proposed amendment. Paragraph A8 states: (emphasis added): "Physical assets (such as inventories…are not financial assets…" and paragraph A57 states (emphasis added): "For a financial asset, this typically…" Consistent with the proposed consequential amendments to PS 3450 arising from the proposed conceptual framework, we think "financial asset" should be changed to "financial instrument asset" in the two noted paragraphs.