



Conseil sur la comptabilité
dans le secteur public

Projet de chapitre SP 1202, Présentation des états financiers

Réponses à l'exposé-sondage

Août 2021

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MFOA Response to PSAB Exposure Draft: The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft: Financial Statement Presentation, Proposed Section PS 1202

Introduction

About MFOA

The Municipal Finance Officers' Association of Ontario (MFOA), established in 1989, is the professional association of municipal finance officers with more than 4500 individual members. We represent individuals who are responsible for handling the financial affairs of municipalities and who are key advisors to councils on matters of finance policy. MFOA promotes the interests of our members in carrying out their statutory and other financial responsibilities through advocacy, information sharing, networking opportunities, and through the promotion of fiscal sustainability. We also provide members with training and education to enable continuous professional development and to support excellence in municipal finance.

The following submission is made in partnership with MFOA's Committee on Accounting and Financial Reporting, consisting of municipal finance officers across Ontario. Our comments build on our previous submission to PSAB on their 2015 Consultation Paper 3.

Objectives

We understand that PSAB is proposing changes to the Conceptual Framework because:

- It is necessary for a standard setter to periodically review its conceptual framework to ensure it remains relevant.
- Stakeholders asked PSAB to look at the existing conceptual framework to ensure it properly reflects and is grounded in the public sector environment.
- Some standards-level issues made some stakeholders, such as the 2007-2009 Joint Working Group, question the foundations of public sector financial reporting and they asked PSAB to reconfirm their appropriateness.

MFOA has reviewed the Conceptual Framework Exposure Draft with the intent of ensuring that the updated framework is grounded in the Ontario municipal public sector environment. With this in mind, the following themes were identified for an improved conceptual framework:

- **Promoting accountability:** one major characteristic of the public sector environment is that they are accountable to the general public. Accountability is realized through federal and provincial legislation, as well as legislated bodies such as the ombudsman. As such, public sector financial reporting should be presented in a format that can be used by the lay person.
- **Promoting transparency:** building on accountability, public sector enterprises are often scrutinized by the public, the media, and other levels of government to provide free and

transparent information. Financial reporting should elevate a public sector enterprise's transparency to its stakeholders.

- **No added complexity:** public sector enterprises, and especially municipal governments, are under significant resource constraints. This has been further compounded by the ongoing pandemic. One of MFOA's long-standing principles is that reporting requirements should not be onerous to municipal staff, and this principle applies to financial reporting. While change can be necessary, it should not create further complexity for either the creator or the user.

General Comments on the Conceptual Framework

MFOA supports the overall objectives of the conceptual framework. As the foundational framework for public sector financial reporting, we believe a regular review of the framework is key to guaranteeing that financial reporting achieves the goals of providing transparency and maintaining accountability to the public. In that view, the framework's overarching objective to provide financial information for accountability purposes to primary users is aligned with MFOA's perspective. However, we believe there are some minor amendments to the conceptual framework that could further PSAB's goals of transparency and accountability.

1. Amend Chapter Two to clarify the goal of revising the characteristics of public sector entities

In general, we believe Chapter Two should be expanded to provide clarification for the goal of revising the characteristics of public sector entities. Public sector entities encompass a broad array of entities, and we understand that it is a difficult task to define characteristics that will resonate with all entities. However, even within the municipal sector there is a great deal of difference when using the lens of the characteristics identified. For example, while it is true that longevity can be a characteristic of public sector entities, within the municipal context this is not always a given when considering issues such as amalgamation, or dissolution of certain municipal bodies, like the Local Health Integrated Network.

2. Amend paragraph 2.69 to expand the definition of longevity as a characteristic of public sector entities to provide more detail on what the term encompasses

We agree that longevity can be a characteristic of public sector entities. However, the description of longevity should be expanded to provide more detail on what longevity encompasses. We believe that the definition is trying to define longevity within the context of an entity's duty to be stewards of public resources. But without further context, a situation such as amalgamation would go against the concept of longevity.

3. Amend the definition of unique governance structure in paragraph 2.37 to make reference to public sector entities' unique interdependency on other levels of government to fulfill their obligation to serve the public

We agree that public sector entities' unique governance structure is a key characteristic, but it should be expanded to make reference to public sector entities' unique interdependency on

other levels of government to fulfill their obligation to serve the public. Similarly, due to limited sources of funding, municipalities are particularly dependent on provincial funding. For many Ontario municipalities, provincial funding accounts for a large proportion of annual revenue to pay for essential services. The provincial-municipal relationship differs across Canada, where municipal responsibilities are dependent on provincial legislation.

For instance, in Ontario, there are some services that can largely be seen as a municipal responsibility (such as water services, wastewater treatment, solid waste collection, etc.). There are a number of other services that are intertwined with the provincial government such as health and social services. However, to the general public there is no discrepancy between *who* provides the service; their focus is on whether the service is being delivered.

4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions.

We agree that the financial significance of non-exchange transactions is a key characteristic for public sector entities. Indeed, within the municipal context, taxes, user fees, fines, and penalties contribute a considerable portion of revenues. However, we recommend providing clarification on what volume means in this context. Municipalities vary widely in population sizes, which impact the volume of non-exchange transactions that each municipality receives. While we assume that volume refers to the number of non-exchange transactions in relation to the overall number of transactions that make up revenue, clearly defined parameters would be beneficial.

5. Amend paragraph 2.19(C) to remove the word “generally” from the description of taxation

Taxes are not meant to be an exact reflection of the value of services received by each individual taxpayer. Indeed, while taxes are the main source of revenue for public sector entities to pay for services for the public, it is a misconception that an individual's tax dollars go solely to their individual services. Tax revenue pays for services that benefit the entire community, regardless of whether the individual taxpayer may or may not use that service. Likewise, user fees, grants, and other non-taxation revenue help to fund a large portion of municipal services.

We believe that maintaining the term “generally” in paragraph 2.19(C) adds further confusion to the lay person. Removing the term generally would make the statement more definitive that taxes and services are not co-related in any way.

Comments on Budget Concerns within the Conceptual Framework and Proposed PS 1202, Financial Statement Presentation

6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and

any further information as may be deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements.

It is our understanding that it is not the intent of PSAB to have municipalities change how their budgets are prepared, and we support this intent. Greater clarification is required within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements.

However, it must be recognized that, for ready comparison on financial statements, how the budget (or at least the summary of the budget) is presented will require modification to align to the new standard. Otherwise, users still could not pick up the budget document and easily locate the comparative numbers on the financial statements. Adjustments to the budget for comparative purposes would be completed in the background, which is what occurs now.

Currently, Ontario municipalities complete their budgets on either a cash or modified accrual accounting basis, as legislated by the *Municipal Act, 2001* and O. Reg. 284/09. By regulation, it is not mandatory to include amortization, post-employment benefits, and solid waste landfill closure and post-closure expenses within the approved budget. Similarly, while municipalities must inform municipal councils of these items and the impact that they may have on future tangible capital asset funding requirements, this information does not need to be adopted as part of the budget. While the differences in budget presentation between cash and accrual are significant, forcing a change in presentation may be excessive for the value it may or may not provide as a comparator on the financial statement.

We urge PSAB to recognize that to implement a change to how a budget is presented, even for comparison to Financial Statements, will require assistance through education and training resources, as well as additional time to implement.

General Comments on Timing

7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required

MFOA supports the new reporting model and agrees that it will provide additional clarity and understandability for the users of the financial statements. However, we have significant concerns with respect to the implementation of the new reporting model under PS 1202, effective April 1, 2024, which follows closely on the heels of the recently revised reporting model, effective April 1, 2022. Within PS 1201, the revised reporting model adds the new statement of Remeasurement Gains and Losses to support PS 3450, Financial Instruments, with related changes to other statements for wording, disclosure, etc.

Amending the structure of the financial statements within various software applications, adjusting the general ledger account structure to accommodate reporting requirements, and revising internal Financial Information Return templates for ease of Provincial reporting takes time, money and effort. In addition, staff and members of council alike must be trained on how to account for and understand each new set of statements to enhance operations and, ultimately, decision-making. To implement two differing reporting models within such a short time frame will put a strain on municipal resources. MFOA strongly encourages reconsideration of the timing and/or blending of the two reporting models to limit the number and frequency of changes that will be required.

We also urge PSAB to recognize the constraints of the pandemic. Respectfully, PSAB has already delayed the effective dates of all upcoming standards by one year. We, as well as our members, appreciate this delay. However, an adverse effect is that municipalities must adopt a fair number of standards over the coming two years, including but not limited to:

- PS 1201, Financial Statement Presentation (April 1, 2022)
- PS 2601, Foreign Currency Translation (April 1, 2022)
- PS 3041, Portfolio Investments (April 1, 2022)
- PS 3450, Financial Instruments (April 1, 2022)
- PS 3280, Asset Retirement Obligations (April 1, 2022)
- PS 3400, Revenue (April 1, 2023)
- PSG-8, Purchased Intangibles (April 1, 2023)

As stated above, we also believe that implementing this standard will require time and training resources for municipalities. Blending the implementation of PS 1201 to coincide with PS 1202 would allow PSAB, as well as MFOA, to prepare workshops and resources for municipalities to ensure that municipal staff are prepared.

The proposed standard PS 1202, as well as the proposed Conceptual Framework, will have a significant impact on public sector financial reporting which is an already onerous activity. While these changes are likely to improve clarity, understandability, and usability of financial statements for end users, we must ensure that staff preparing the financial statements are able to fully adopt these new concepts to guarantee success across the sector.

General Comments on Terminology

The conceptual framework and proposed PS 1202 includes a number of changes to terminology. Overall, we believe that most of the changes to terminology provide greater understandability to financial statements for users of the statements. The following recommendations are some of our key suggestions to further improve clarity for the lay person.

8. Amend paragraph 3.20 so labour force only includes recognition of value based on current usage and payment for services

We appreciate that PSAB is expanding the concept of service capacity to include non-financial activities, and we understand that the skills and capabilities of a public sector entity's labour

force can fall under service capacity. These types of non-financial aspects of service capacity are beyond the scope of municipalities to value and quantify. Recognition of their value should remain based on current usage and payment for services (such as salaries and wages).

9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources

We recommend that paragraph 3.20(A) should be amended to explicitly state user fees as a way to raise public resources. Particularly in the municipal sector, user fees make up a large portion of revenues. The power to impose user fees affects an entity's service capacity, as in some cases such as water or wastewater user fees, public parking, or the use of a recreational arena, whereby the fee directly impacts the financial capacity to provide said service.

10. Amend paragraphs 7.08-7.11 to maintain the term "reliability" instead of "faithful representation"

We are not supportive of the proposed change to "faithful representation". We believe that this term would increase confusion and would necessitate a review of the definition when financial statements are being reviewed. We believe that the use of "reliability" is more appropriate and better understood for users of the financial statements.

11. The terms "economic resources" and "economic obligations" are not as intuitive as the terms "assets" and "liabilities" for users of financial statements. More clarity should be provided in the definitions under the Glossary

We agree with the broader concepts of "economic resources" and "economic obligations", encompassing some of the more nebulous aspects of service capacity on items that may not be readily measured or quantified. In addition, we appreciate the continued use of the terms "assets" and "liabilities" on the face of the financial statements as terms that are readily understood by users of the financial statements and incorporate items that are measurable and quantifiable. The change in terminology seems to follow the proposed framework's theme of incorporating unmeasurable transactions and considerations within entities. However, this new terminology is not as intuitive as the terms "assets" and "liabilities" for the users of financial reports. As such, more clarity should be provided within the conceptual framework. Similarly, PSAB should consider that preparers will need time to adjust to these new terms, as "economic resources" and "economic obligations" are used throughout the framework

12. Amend paragraphs 9.37-9.40 to provide clarification on the concept of Going Concern to add the potential for public sector entities to end through sale, amalgamation, etc.

Similar to our discussion above with respect to longevity, further clarity around going-concern may be required. While we agree that government organizations are long-term organizations, there is the potential for these organizations to come to an end through sale, amalgamation, etc. There exists the potential that all assets and liabilities will simply be absorbed into the next or new entity, limiting any variance in value and minimizing any going-concern issues. Both the going-concern concept as well as the longevity concept need to be better defined and/or inter-connected to reduce confusion.

13. Revisit the terms “accumulated surplus or deficit” in PS 1202 and consider a new term that can reduce inherent biases by users of financial statements and considers the link to service capacity

Within the proposed changes for the Statement of Financial Position, the terminology “accumulated surplus or deficit” is retained. We understand that the accumulated surplus or deficit is a crucial indicator of financial performance, however using the terms surplus/deficit do not connote their true meaning in this context. Surplus presents an inherent bias when read by a lay person, as they perceive a surplus to be excess funds that are unaccounted for. This understanding has led to a perception of the taxpayer being over-taxed; however, a municipal surplus is often funds reserved for future obligations such as asset replacements, or paying retirement benefits. Similarly, a deficit does not indicate poor financial planning, but can be the result of reporting an amortization expense or an unexpected emergency like a natural disaster.

The use of surplus and deficit has been a point of contention between preparers and users of financial statements. We believe that PSAB should revisit the concept of accumulated surplus or deficit to find a more neutral term that better describes the changes in a municipality’s net financial position.

We believe that a replacement term for “accumulated surplus or deficit” should tie back to a public sector entity’s service capacity. As highlighted in the proposed Conceptual Framework, service capacity is one of the most important concepts of a public sector entity, and as such, its finances are intrinsically linked to it’s ability to provide services.

Similar to the proposed changes to terminology in the Conceptual Framework to remove biases and improve understandability, we believe a new term will allow users to better understand the intention of the presentation of financial statements.

14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities

We agree in principle with the new definitions of financial assets, non-financial assets, financial liabilities, and non-financial liabilities. However, more clarity is required to distinguish the differences between financial and non-financial assets/liabilities.

The definitions provided in paragraph .005 do not provide a clear picture of what these categories entail. By these definitions, a financial asset can be used to settle financial liabilities, while financial liabilities are liabilities that can be settled using financial assets. At the same time, non-financial assets are all other assets that are not financial. This is not a very straightforward definition. We appreciate PSAB’s broad definition may allow more autonomy for public sector entities to categorize their assets and liabilities, but in order to create comparable financial statements across the sectors, definitions should be more precise.

For instance, based on the definitions provided it is unclear whether contaminated sites would be considered a financial or non-financial liability. We recommend that the Standard provide more examples of non-financial assets and liabilities to avoid confusion.

We appreciate the opportunity for MFOA and its Accounting and Financial Reporting Committee to provide comments on the Exposure Draft: The Conceptual Framework for Financial Reporting

in the Public Sector and Exposure Draft: Financial Statement Presentation, Proposed Section PS 1202. Should you have any questions, please contact MFOA's Executive Director Donna Herridge (donna@mfoa.on.ca).

Members of MFOA's Accounting and Financial Reporting Committee

Brad Brookman

Municipality of North Grenville

Sandy Calandra

Region of Peel

Marie Chan

City of Vaughan

Chris Chen

AMONTario

Manel Daniel

City of Toronto

Patrick Kelly

Township of Wilmot

Sanjay Kiran

Region of Halton

Maja Kuzmanov

City of Brampton

Cynthia Laprade

Township of Rideau Lakes

Eliza McLaren

Region of York

Brock Piddle

Municipality of Chatham-Kent

Martin Russell

Region of York

Karyn Smithard-Costanzo

Region of Halton

Staff members: Suzanna Dieleman, Manager of Policy; Damaris Lara, Policy Team Lead; Christine Duong, Senior Policy Advisor



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

May 6, 2021

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Treasurer of the Town of Aurora, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities
2. Amend paragraph 2.69 to expand the definition of longevity as a characteristic of public sector entities to provide more detail on what the term encompasses
3. Amend the definition of unique governance structure in paragraph 2.37 to make reference to public sector entities' unique interdependency on other levels of government to fulfill their obligation to serve the public
4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions
5. Amend paragraph 2.19(C) to remove the word "generally" from the description of taxation

6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements
7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
8. Amend paragraph 3.20 so labour force only includes recognition of value based on current usage and payment for services
9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources
10. Amend paragraphs 7.08-7.11 to maintain the term “reliability” instead of “faithful representation”
11. The terms “economic resources” and “economic obligations” are not as intuitive as the terms “assets” and “liabilities” for users of financial statements. More clarity should be provided in the definitions under the Glossary
12. Amend paragraphs 9.37-9.40 to provide clarification on the concept of Going Concern to add the potential for public sector entities to end through sale, amalgamation, etc.
13. Replace “accumulated surplus or deficit” with “accumulated results of operations” in PS 1202 in order to reduce inherent biases by users of financial statements
14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed. Should you wish to follow up on this letter, please contact Rachel Wainwright-van Kessel, CPA, CMA at rvankessel@aurora.ca.

Sincerely,



cc. Donna Herridge, Municipal Finance Officers' Association of Ontario
(donna@mfoa.on.ca)



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

May 6, 2021

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments supporting the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Treasurer for the Municipality of Clarington, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. In particular municipal governments, public sector enterprises understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities
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7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
8. Amend paragraph 3.20, so labour force only includes recognition of value based on current usage and payment for services
9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources
10. Amend paragraphs 7.08-7.11 to maintain the term “reliability” instead of “faithful representation”
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12. Amend paragraphs 9.37-9.40 to clarify the concept of Going Concern to add the potential for public sector entities to end through sale, amalgamation, etc.
13. Replace “accumulated surplus or deficit” with “accumulated results of operations” in PS 1202 to reduce inherent biases by users of financial statements
14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances.

I would also add that the users of financial statements for municipal governments and associated organizations are vastly different than those for senior levels of government and crown agencies. A private sector analogy would be the user needs and complexity of private companies and publicly traded companies. Core fundamentals are shared between the accounting standards for those entity types, but standard setters have recognized that one set of standards does not work for all businesses. The Board should consider if it is appropriate to the needs of the users to have one set of standards for all levels of government.

Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required to complete meaningful work. Should you wish to follow up on this letter, please contact me.

Sincerely,

A handwritten signature in black ink that reads "Trevor Pinn". The signature is written in a cursive, slightly slanted style.

Trevor Pinn, CPA, CA
Director of Financial Services/Treasurer
Municipality of Clarington

cc. Donna Herridge, Municipal Finance Officers' Association of Ontario
(donna@mfoa.on.ca)

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 indicator 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.

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.

Yours truly,

MNP LLP

A handwritten signature in blue ink that reads "J MacKenzie". The signature is written in a cursive style with a large, stylized initial "J".

Jody MacKenzie, CPA, CA
Director, Assurance Professional Standards

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

May 7, 2021

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Treasurer of Central Frontenac Township, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities
2. Amend paragraph 2.69 to expand the definition of longevity as a characteristic of public sector entities to provide more detail on what the term encompasses
3. Amend the definition of unique governance structure in paragraph 2.37 to make reference to public sector entities' unique interdependency on other levels of government to fulfill their obligation to serve the public
4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions
5. Amend paragraph 2.19(C) to remove the word "generally" from the description of taxation
6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be

- deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements
7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
 8. Amend paragraph 3.20 so labour force only includes recognition of value based on current usage and payment for services
 9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources
 10. Amend paragraphs 7.08-7.11 to maintain the term "reliability" instead of "faithful representation"
 11. The terms "economic resources" and "economic obligations" are not as intuitive as the terms "assets" and "liabilities" for users of financial statements. More clarity should be provided in the definitions under the Glossary
 12. Amend paragraphs 9.37-9.40 to provide clarification on the concept of Going Concern to add the potential for public sector entities to end through sale, amalgamation, etc.
 13. Replace "accumulated surplus or deficit" with "accumulated results of operations" in PS 1202 in order to reduce inherent biases by users of financial statements
 14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed. Should you wish to follow up on this letter, please contact me at treasury@centralfrontenac.com.

Sincerely,



cc. Donna Herridge, Municipal Finance Officers' Association of Ontario (donna@mfoa.on.ca)

May 5, 2021

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

Dear Michael Puskaric,

Re: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Director of Financial Services / Treasurer for the County of Essex, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities
2. Amend paragraph 2.69 to expand the definition of longevity as a characteristic of public sector entities to provide more detail on what the term encompasses
3. Amend the definition of unique governance structure in paragraph 2.37 to make reference to public sector entities' unique interdependency on other levels of government to fulfill their obligation to serve the public
4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions
5. Amend paragraph 2.19(C) to remove the word "generally" from the description of taxation

May 5, 2021

6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements
7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
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13. Replace “accumulated surplus or deficit” with “accumulated results of operations” in PS 1202 in order to reduce inherent biases by users of financial statements
14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed.


Should you require further information, please contact me by email at szwiers@countyofessex.ca or by phone at extension 1312.

Regards,

Sandra Zwiers

Sandra Zwiers MAcc, CPA, CA
Director of Financial Services / Treasurer

Cc: Mike Galloway, CAO
Gary McNamara, Warden
Donna Herridge, Executive Director, MFOA

 519-776-6441 ext. 1312
TTY 1-877-624-4832

 360 Fairview Ave. W.
Suite # 202 Essex, ON N8M 1Y6

 countyofessex.ca



May 7, 2021

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

Dear Mr. Puskaric:

Re: Responses to Exposure Drafts

We are pleased to submit to the Public Sector Accounting Board responses of The City of Winnipeg on the following Exposure Drafts:

- The Conceptual Framework for Financial Reporting in the Public Sector (Appendix A)
- Financial Statement Presentation, Proposed Section PS 1202 (Appendix B)

The comments are based on consistency, comparability and ease of understanding for users of financial statements. Exposure Drafts are an important part of the due diligence process in establishing accounting standards and we welcome the opportunity to respond.

Sincerely,

Catherine Kloepfer, FCPA, CGA, FCA, ICD.D
Chief Financial Officer

c. Michael Ruta, Interim Chief Administrative Officer
Paul Olafson, Corporate Controller

ATTACHMENTS

PSAB Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector

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

There are several sections where the City of Winnipeg is providing comments as noted below by section number.

Paragraph 1.16

The main components of this Conceptual Framework include:

- a) *characteristics of public sector entities;*
- b) *objective of financial reporting;*
- c) *primary users of financial reporting;*
- d) *expectations of those users;*
- e) *role of financial statements;*
- f) *financial statement foundations and objectives;*
- g) *qualitative characteristics of information and related considerations;*
- h) *definitions of elements;*
- i) *general recognition and derecognition criteria;*
- j) *general measurement concepts; and*
- k) *general presentation concepts.*

Components (a)-(d) are relevant to all financial reporting. Components (e)-(k) relate solely to the reporting in financial statements.

Response:

It is not clear why the last two sentences are required. It would appear “reporting in financial statements” is a subset of “all financial reporting” so therefore it would be logical to define what “all financial reporting” means. Special purpose financial information is outside the scope of the Conceptual Framework but is a form of financial reporting and therefore unless otherwise defined, would be covered by paragraph 1.16. With this example, components (g) through (k) would apply to financial reporting.

Unless that was the intent of this drafting, removal of these two sentences is recommended.

Paragraph 2.01

This chapter identifies the key characteristics of public sector entities that have financial reporting implications. These characteristics fundamentally shape the objective of public sector financial reporting.

Response:

Given the scope of the Conceptual Framework is limited to general purpose financial statements, the references to financial reporting in this paragraph should be removed. This recommendation is consistent with comments relating to paragraph 1.16.

For consistency throughout the Exposure Draft, it is recommended to either define “financial reporting” or use “financial statements”.

Paragraph 2.02

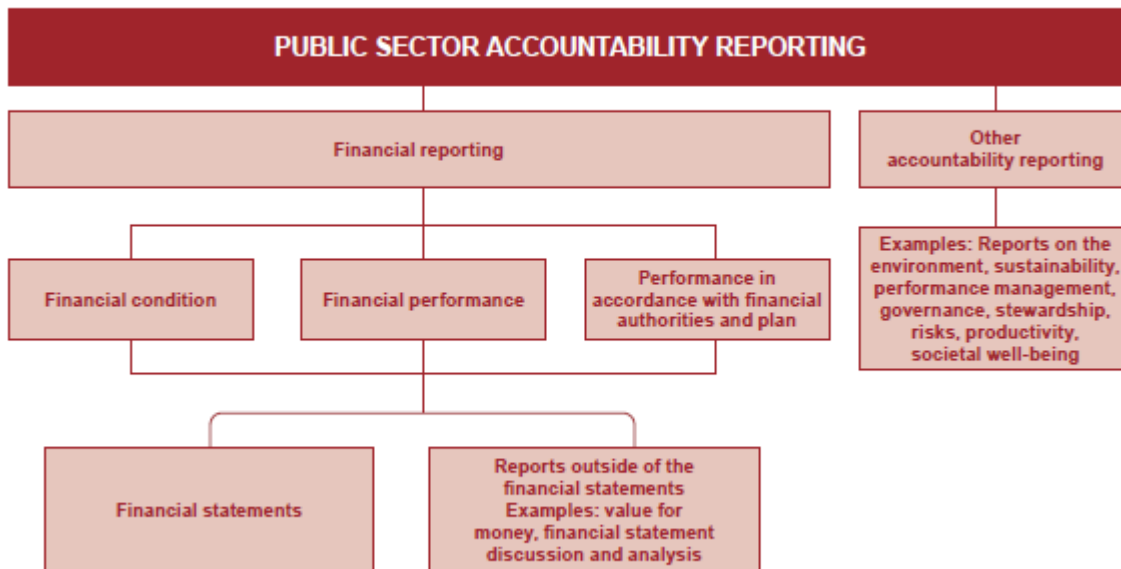
Identifying the characteristics of public sector entities, which include governments, government components and government organizations, will result in concepts and standards that are appropriate to the public sector.

Response:

As this is a Conceptual Framework the terms government, government components and government organizations should be defined for clarity and consistency.

Figure 3.1

Figure 3.1



Response:

Figure 3.1 is a good depiction of what financial reporting means and sets the stage for this Exposure Draft. Therefore, it would be clearer and more useful to include this conceptual diagram in Chapter 1 (Introduction) of the Exposure Draft.

Paragraph 4.11

Financial statements prepared for accountability purposes help satisfy the needs of users who have limited authority, ability or resources to obtain information, and for whom the statements are an important source of information.

Response:

We recommend “statements” be “financial statements” to be consistent with the terminology throughout the Exposure Draft.

Paragraph 5.05

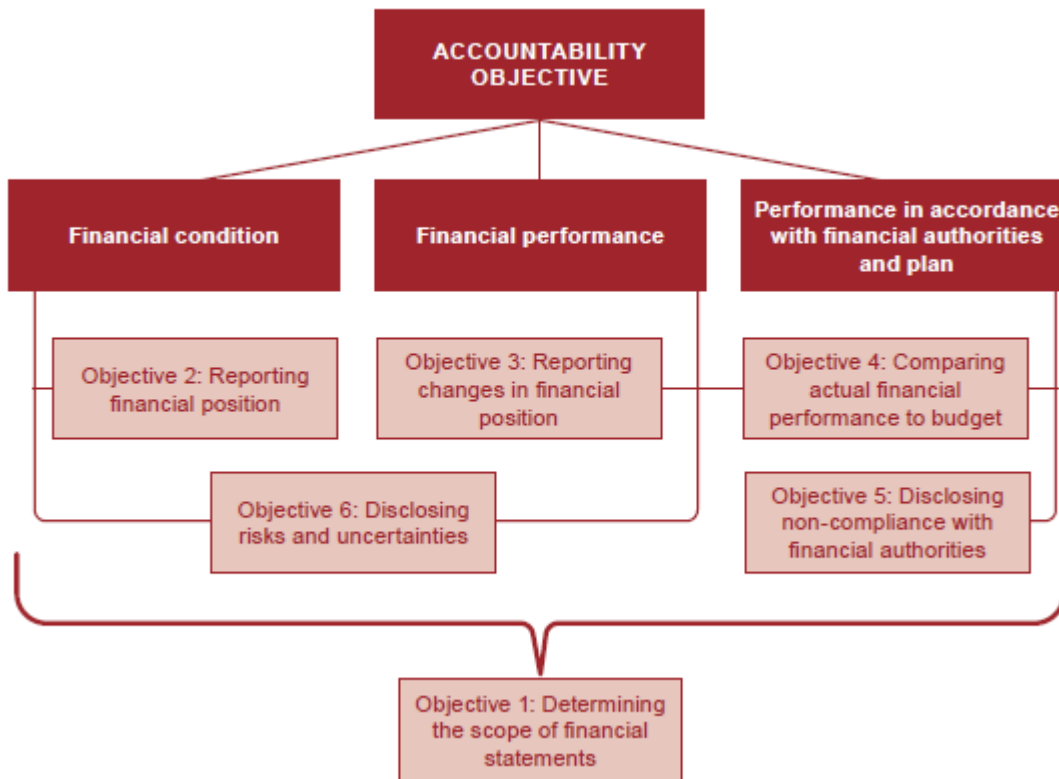
Governments carry out their policies and serve the public through a variety of public sector entities and through funding of other entities. Some public sector entities are components of government, such as departments and ministries, and are integral to the operations of government. Other public sector entities are separate entities with their own management, and which have been delegated financial powers and operational authority, typically but not always through legislation. The whole of government is a public sector entity and is a separate reporting entity; it comprises all of a government’s components and organizations. (emphasis added)

Response:

For consistency and clarity, the term “separate entities” used above should be changed to “government organizations” as this is the term used throughout the Exposure Draft.

Figure 6.1

Figure 6.1



Response:

Objective 5, Disclosing non-compliance with financial authorities, also has implications to both financial condition and/or financial performance. For example, non-compliance with terms and conditions of funding agreements could result in significant liabilities accruing to the government entity in receipt of the funding.

Paragraph 6.06 regarding Objective 5 should include commentary regarding the potential implication to the accountability objectives of financial condition and financial performance as they are inextricably linked.

Paragraph 6.18

There are two categories of economic obligations: financial and non-financial.

Response:

We recommend an example of a non-financial obligation be included for additional guidance and clarity. It is not clear how non-financial obligations link in to financial reporting because by their nature they are not financial.

Paragraph 10.13

Recognition and reporting of items, transactions and other events on the face of the financial statements, either individually or within totals, does not necessarily meet all the accountability requirements. Notes and schedules are integral to the financial statements. They clarify and explain items, transactions and other events recognized and reported on the face of the financial statements. Notes and schedules present information that augments and supports fair presentation of an entity’s financial position and periodic financial performance. (emphasis added)

Response:

Some note disclosures are not necessarily intended to enhance what is recognized and reported on the face of the financial statements. An example would be multi-employer pension plan information disclosure where there is no asset/liability recognized.

We recommend that note and schedule disclosure not be limited to items recognized and reported on the face of the financial statements and therefore this sentence could be modified to read “They clarify and explain items, transactions and other events.”

Paragraph BC 9.34 and BC 9.35

Many respondents to the Statement of Concepts encouraged PSAB to develop guidance in relation to recognizing natural assets in financial statements.

PSAB will include this topic in its next project priority survey.

Response:

We recognize the present exclusion of these assets from financial statements significantly understates the reported value of assets that are available to provide services to public-sector entities. Natural assets deliver significant benefits to the residents, businesses and visitors to our City. We also recognize the challenge to recognizing and measuring these assets.

We encourage and support PSAB to review this further.

PSAB Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

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

There are several sections where the City of Winnipeg is providing comments as noted below by paragraph number.

Paragraph 0.37

.037 (New) This Section requires minimum line items and subtotals to be presented on the face of the statements. An entity should present additional line items, headings and subtotals when such presentations are relevant to an understanding of the entity's financial position and change in financial position.

0.38 (New) When an entity presents additional subtotals in accordance with paragraph PS 1202.037, those subtotals should:

...d) not be displayed with more prominence than the subtotals and totals required by standards in the PSA Handbook.

Response:

Item (d) of paragraph 0.38 contradicts the spirit and intent of paragraph 0.37. If an entity adds additional disclosure beyond the minimum required, it would only be doing so for clarity and to inform the readers of the financial statements. For example, on the Statement of Operations, it is informative to taxpayers to add a sub-total to indicate the net results of "operations" prior to indicating the net results of capital transactions (eg. government transfers for investment in tangible capital assets).

Paragraph 0.84

.084 (New) a non-financial liability is a liability that cannot be settled through the use of financial assets but only through the use of non-financial assets or economic resources excluded from recognition in paragraph PS 1202.071. A non-financial liability does not represent a future financial resource requirement. No financial liabilities include but are not limited to non-financial performance obligations.

Response:

It is counterintuitive to note non-financial liabilities on a financial statement. It is also not practical to identify some non-financial liabilities of a government and not all such performance obligations. These can be wide-ranging and this new disclosure will create a dichotomy of disclosure practices across the country which then negates the ability for comparison and consistency.

Paragraph 0.94

.094 (New) Information is provided on the statement of financial position identifying the components that make up the net assets or net liabilities of the entity. The components of net assets or net liabilities to be presented on the statement of financial position are only those identified by PSAB. The identification of these components, and the reporting of the balance in each component, links the net financial position indicator to the statement of changes in net assets or net liabilities.

Response:

(Please read this in conjunction with our response to paragraph .100) In order for the Statement of Financial Position to be meaningful and understandable, we do not agree that the balances of each component be added to that statement, but rather remain in the notes to the financial statements.

Paragraph .100

.100 (New) The statement of net financial assets or net financial liabilities should report the net financial assets or the net financial liabilities indicator of financial position.

Response:

Further to our response to paragraph .094, including this same disclosure on the Statement of Financial Position is of greater importance than a separate financial statement. A government's net financial assets (liabilities) position is a primary indicator of the government's financial position. It allows readers to understand the financial strength of the government and is a potential indicator of future policies and budgets to address any challenges. The existing reporting structure is advantageous because it highlights this on the Statement of Financial Position.

The calculation to determine the net financial assets (liabilities) position is straightforward and does not require a separate financial statement to disclose this information.

The addition of another financial statement will be confusing to readers and does not allow consistency with other standards of financial statement presentation used in the capital markets.

We recommend that the components of net financial assets or net financial liabilities be disclosed on the Statement of Financial Position.

Paragraph .176

.176 (New) If an entity enters into financing activities, the statement of cash flow should account for the net cash available to be used for financing activities or the net cash needed to be generated by financing activities. This amount is determined by combining the opening cash balance with the net cash flows provided from or required by all of the operating, capital and investing activities of the entity.

Response:

All four activity classifications have equal importance when explaining changes to the entity's cash and cash equivalents.

Financing activities for many municipalities are limited to capital related transactions. These local governments do not issue debt to fund operating or investing activities. The recommendations contained in this section implies that this is not the case.

Information about an entity's fiscal sustainability is adequately addressed with disclosure of the entity's net financial assets (liabilities) position.

The proposed restructuring of this financial statement is not consistent with other financial reporting standards used in the capital markets and will potentially cause confusion amongst readers.

We recommend that there not be disclosure of total cash flows from operating, capital and investing activities before financing activities.

Paragraph .189

.189 (New) If an entity chooses not to report the change in net financial assets or net financial liabilities, it then should disclose in the notes a comparison of the total actual capital expenditures incurred in the period with those originally budgeted. The budgeted capital expenditures disclosed should follow the same accounting principles, be for the same scope of activities and use the same classifications as the actual capital expenditure amounts disclosed.

Response:

Clarification on this point would be advisable. Organizations should have the flexibility to disclose the budgeted capital expenditures on any one of: a) financial statements; b) notes; or c) schedules. This will permit preparers to disclose the information in a manner most applicable to their financial statement users.

**Appendix A: Illustrative Financial Statements – Senior Governments
(and 0.79 (h))**

'Transfers to acquire tangible capital assets' is included as a Financial Liability on the Statement of Net Financial Position with the following explanation related to GOVERNMENT TRANSFERS, Section 3410:

"If an entity determines that a capital transfer received is a liability until the related asset is used to provide services, then the initial liability is a financial liability. That financial liability then becomes a non-financial liability as the asset is constructed or purchased. Revenue recognition would occur as the related asset is used to provide services."

Alternatively, the same amount is not shown on Appendix B Illustrative Financial Statements – Local Governments.

Response:

Footnote 16 of the Exposure Draft notes *“the Introduction to public sector accounting standards specifies that concepts and standards apply to all public sector entities, not only governments, unless otherwise directed or permitted to adopt other concepts and standards. Editorial changes to the various Sections in the PSA Handbook resulting from the changes in the Introduction to public sector accounting standards have yet to be completed. For example, Section PS3410 applies to transfer received from or provided by a government or any other public sector entity. Section PS 3410 needs to be updated to reflect this”*.

When PS 3410 is updated, the principles of consistency must be applied. There should be comparability of accounting treatment for the same type of government transfers. If a senior government receives a transfer from another government, the accounting treatment must be consistent with how a local government would account for the same type of capital transfer. The example used in Appendix A is more akin to not-for-profit accounting and is a departure from the revenue recognition principles in use at the local government level. This smoothing of income being used in the Senior Government example does not provide a realistic picture of the receipt of government transfers.

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

Yes, this provides a good balance to the value of implementing these accounting recommendations as soon as possible with adequate time to consider the implications of the new recommendations, including system changes.



May 12, 2021

481313

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

RE: PSAB Exposure Draft: PS 1202 Financial Statement Presentation

Thank you for the opportunity to provide comments on the Exposure Draft titled, "Financial Statement Presentation 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.

Noted improvements in the Exposure Draft

The exposure draft includes the component of Non-Financial Liabilities that will be helpful to users in understanding the economic substance of restricted government transfers used for capital financing. PSAB has noted that a liability exists when government is required by the stipulations of a transfer agreement, its public communications and actions and the substance of the transfer agreement to use the transfer for delivery of services over subsequent fiscal periods. The proposed accounting treatment will provide enhanced accountability and transparency of these transactions.

Maintaining the title "Statement of Operations" will retain focus on an entity's operations. Governments exist to provide services and programs for the public, the term "Statement of Operations" is a complete description for government revenue and expense reporting as an accountability measure of these services and programs delivery.

.../2

Presenting budget amounts using the same basis as actuals is a key accountability measure for entities. Requiring entities to provide a reconciliation in their notes where budgets are prepared on a different basis than actuals will provide transparency of financial information especially for municipalities as they prepare their budgets on a mill rate system.

We are encouraged to see that PSAB has continued with presenting cash required for financing as an isolated line item on the Statement of Cash Flows. This indication of a government's sustainability is useful for financial statement users.

We agree with the revised calculation of net debt through a Statement of Net Financial Assets (Liabilities). The treatment of items such as Endowments as being excluded from this calculation is appropriate as standards are yet to be developed. There needs to be an emphasis on treating items such as these appropriately when standards are developed.

Concerns with Proposed Changes

One of PSAB's proposed objectives of the new revised reporting model is to increase user understandability. The public has come to expect the two-bottom line approach since it was first introduced. Although initially users may have found it visually complex, when complete financial information is presented on one statement, the reader is able to understand the entire financial picture of the entity with more clarity. We continue to ask PSAB to consider that when financial information is presented over multiple statements and schedules, users must retain the information presented on each statement to make the necessary links to confirm the financial position and performance of the entity. The objective of understandability as proposed by PSAB cannot be enhanced without resolving this fundamental difference.

We agree that the proposal of the "Accumulated Other" component of net assets or net liabilities is forward-thinking and would allow the framework to evolve as current technical issues are raised. However, without defining "Accumulated Other", ambiguity exists on what it represents, how it is measured and when it is recognized. Including this component in the illustrative examples without first defining the practice is also misleading. It is imperative to ensure there is a comprehensive rationale supporting the items to be recognized within the proposed "Accumulated Other". The introduction of this component is challenging because Governments will have to rely on PSAB for definition and it is difficult to provide meaningful feedback without additional information.

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

Michael Puskaric, MBA, CPA, CMA
mpuskaric@psabcanada.ca
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

16 May 2021

Dear Michael,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Chief Administrative Officer and Treasurer for the Town of Petrolia, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities.
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4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions.
5. Amend paragraph 2.19(C) to remove the word "generally" from the description of taxation.
6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared.

Phone: (519)882-2350 • Fax: (519)882-3373 • Theatre: (800)717-7694

411 Greenfield Street, Petrolia, ON, N0N 1R0

www.town.petrolia.on.ca



Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements.

7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
8. Amend paragraph 3.20 so labour force only includes recognition of value based on current usage and payment for services.
9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources
10. Amend paragraphs 7.08-7.11 to maintain the term “reliability” instead of “faithful representation”.
11. The terms “economic resources” and “economic obligations” are not as intuitive as the terms “assets” and “liabilities” for users of financial statements. More clarity should be provided in the definitions under the Glossary.
12. Amend paragraphs 9.37-9.40 to provide clarification on the concept of Going Concern to add the potential for public sector entities to end through sale, amalgamation, etc.
13. Replace “accumulated surplus or deficit” with “accumulated results of operations” in PS 1202 in order to reduce inherent biases by users of financial statements.
14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities.

Please note that, **within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities.** Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed. Should you wish to follow up on this letter, please contact me at rcharlebois@petrolia.ca or telephone at 519-882-2350.

Sincerely,

Original Signed by the undersigned

Rick Charlebois, MBA, CPA, CMA

cc. Donna Herridge, Municipal Finance Officers’ Association of Ontario (donna@mfoa.on.ca)

Phone: (519)882-2350 • Fax: (519)882-3373 • Theatre: (800)717-7694

411 Greenfield Street, Petrolia, ON, N0N 1R0

www.town.petrolia.on.ca



May 12, 2021

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, Ontario M5V 3H2
info@psabcanada.ca

Re: Conceptual Framework and Financial Statement Presentation Exposure Drafts

Dear Mr. Puskaric,

We have read the above-mentioned Exposure Drafts that were issued in January 2021 and are pleased to have the opportunity to provide remarks.

Please find our comments on the exposure drafts attached following this letter. This response was prepared by the Colleges Ontario Finance Officers (COFO) organization in conjunction with Administrative Services Coordinating Committee (ASCC), on behalf of the 24 Colleges of Applied Arts and Technology in Ontario.

Thank you for your consideration of our response.

Yours sincerely,

Kelly Morrow, CPA, CA (on behalf of COFO)
Chair of Financial Reporting Subcommittee, Colleges Ontario Financial Officers
Director, Financial Services
The Humber College Institute of Technology and Advanced Learning
kelly.morrow@humber.ca
416-675-5093

Colleges Ontario Financial Officers – Financial Reporting Subcommittee
RESPONSE TO CONCEPTUAL FRAMEWORK AND FINANCIAL STATEMENT
PRESENTATION EXPOSURE DRAFTS

Comments on The Conceptual Framework for Financial Reporting in the Public Sector

Characteristics of Public Sector Entities:

The Ontario College Sector acknowledges that the Board has indicated that public sector entities vary, and that not all government components or organizations may share all of the characteristics of a public sector entity. In Ontario however, Universities and likely any organization that receives government funding would also meet some of these characteristics, meaning these characteristics are not solely applicable to government, government components or government organizations, but also widely applicable to other organizations such as not-for-profit organizations that are not controlled by government (and therefore not a government not-for-profit organization) and may rely upon government funding to fulfil their purpose. These other organizations that receive government funding are subject to similar inherent accountability but are not required to follow Public Sector Accounting. The key difference between government not-for-profit organizations (“GNFPO’s”), and other not-for-profit organizations is the concept of control, and the government reporting entity.

Concept of Control:

As described in the Sector’s response to the Statement of Concepts on a Revised Conceptual Framework, The Sector believes that there continues to be an inconsistency regarding the concept of control as described in Chapter 5 and the concept of control as described in PS 1300.09.

Section 5.22 of the exposure draft states: *“The power or right (constitutional, devolved, delegated or inherent) to take control of an entity away from others may currently exist. However, **until such a power or right is invoked, control of that other entity by the reporting entity would not be considered to exist for financial statement purposes.**”*

PS 1300.09 states: *“**A government may choose not to exercise its power; nevertheless, control exists by virtue of the government’s ability to do so**”.*

These two statements appear to contradict each other, and the Sector requests that the Board clarify the concept of control in the Conceptual Framework or in PS 1300 – Government Reporting Entity. Under the new Conceptual Framework, it would appear that Ontario Colleges would not meet the definition of control, however the definition of a GNFPO turns to PS 1300 to explain control.

Comparing Actual Financial Performance to That Budgeted:

The Ontario College Sector continues to disagree with the concept the GNFPO's should present budgets within its general purpose financial statements. Any organization that receives government funding has inherent public accountability with respect to the funding received, however this accountability is related to outcomes, not budget to actual comparison. Budget to actual comparison is necessary for government entities that have the power to levy tax revenue, since budgets typically drive tax rates and levies.

Elements of Financial Statements:

As previously stated in the Sector's Statement of Concepts response, the definitions of financial statements elements in the revised conceptual framework fails to address appropriate treatment of capital contributions and endowment contributions. The Sector believes that these types of contributions need to be exceptions to the overarching definitions and should be addressed in specific sections that would override the primary definition.

The Sector refers the Board to our previous response at the Statement of Concepts phase for additional details on these items.

Comments on Financial Statement Presentation, Proposed Section PS 1202

While PS 1202 does not apply to those entities applying PS 4200 series and the reporting model contained therein, the Sector is providing comments since the Board's GNFPO strategy has not yet been determined.

Statement of changes in net assets or net liabilities:

PS 1202.094 and .095 only allow for components of net assets or net liabilities identified by PSAB to be presented on the statement of financial position. While PS 1202.098 allows for the disclosure of a more detailed breakdown of the net assets or net liabilities components established by PSAB in the notes, the Sector believes that presenting "accumulated invested in capital assets" is such an integral component of net assets or net liabilities that it should be required to be presented on the face of the statement of financial position and not within the notes. These net assets are not available for other purposes since they are invested in capital assets, and would only become available if they were sold, which would then decrease the service capacity of an organization. Financial statement users should be made aware of this important distinction and restriction since these net assets are not readily available for use by an organization.

Accumulated externally restricted funds is another component of net assets or net liabilities that encompasses restricted funds not available for use at the organization's discretion. It is important that financial statement users be made aware of these amounts in the accumulated net asset or net liability balance since they are not available for use by an organization. Recently, the financial concerns around Laurentian University (while the organization does not follow PSAS) serve as an example as to why the distinction and categorization of net assets or net liabilities is so critical that components such as "accumulated invested in capital assets" and "accumulated externally restricted" should be presented on the statement of financial position and not in the notes.

Comparing actual capital expenditures to that budgeted:

Although optional, the Ontario College Sector believes that the detailed presentation of the changes in net financial assets or net financial liabilities is important and useful information for financial statements users. The proposed presentation of change in net financial asset or net financial liabilities is similar to the Statement of Net Assets currently used by GNFPPO's under the PS 4200 series. The Sector however does not agree with the requirement to present a comparison of the items that comprise the change in net financial assets or net financial liabilities figures originally budgeted.

Capital projects are typically approved by the College Boards on a project by project basis, which does not lend itself to fiscal period budget allocations. Large capital projects, such as those associated with the construction of buildings, are sensitive to changes in planned spending beyond a College's control such as weather impacts or resource delays. Presenting capital project spending as fiscal period budget allocations does not increase accountability in this area, would require additional budgeting provisions and approvals at the Board level each year despite having overall project budgets approved.

GNFPPO Strategy:

The Sector recognizes that the Board is developing its GNFPPO strategy, and that comments made within this response may eventually be addressed as part of that strategy.

The Corporation of the Township of Bonnechere Valley

49 Bonnechere Street East
P.O. Box 100
Eganville, Ontario K0J 1T0



Phone (613) 628-3101
Fax (613) 628-1336

May 18, 2021

BY EMAIL mpuskaric@psabcanada.ca

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

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the CAO/Clerk/Treasurer I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities
2. Amend paragraph 2.69 to expand the definition of longevity as a characteristic of public sector entities to provide more detail on what the term encompasses
3. Amend the definition of unique governance structure in paragraph 2.37 to make reference to public sector entities' unique interdependency on other levels of government to fulfill their obligation to serve the public
4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions
5. Amend paragraph 2.19(C) to remove the word "generally" from the description of taxation

6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements
7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
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Sincerely,

Annette Gilchrist

Annette Gilchrist, CAO
Township of Bonnechere Valley

cc. Donna Herridge, Municipal Finance Officers' Association of Ontario

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

May 26, 2021

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Director of Finance-Treasurer of the Municipality of Strathroy-Caradoc, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

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deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements

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Sincerely,



cc. Donna Herridge, Municipal Finance Officers' Association of Ontario (donna@mfoa.on.ca)

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

May 19, 2021

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Director of Corporate Services/Treasurer of the Municipality of Middlesex Centre, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

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deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements

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Sincerely,

Tiffany Farrell

cc. Donna Herridge, Municipal Finance Officers' Association of Ontario (donna@mfoa.on.ca)

Antonella Risi

From: Connect.FRASCanada.ca <notifications@engagementhq.com>
Sent: Friday, June 11, 2021 12:35 PM
To: Antonella Risi; Martha Jones Denning
Subject: William Robson completed Your Feedback on the Proposed Conceptual Framework

This email originates from an external source. Do not click on links or respond to emails from unfamiliar senders. Ce courriel provient d'une source externe. Si vous recevez un courriel d'un expéditeur inconnu, n'y répondez pas et ne cliquez pas sur les liens qui s'y trouvent.

William Robson just submitted the survey Your Feedback on the Proposed Conceptual Framework with the responses below.

Do you agree with the concepts in the proposed Conceptual Framework as described in Exposure Draft, "The Conceptual Framework for Financial Reporting in the Public Sector"?

Yes

Please provide comments to explain your response above.

The proposed format for the financial statements strikes a reasonable balance between the requirement for budgets to anticipate changes in net worth and for statements of operations to reconcile changes in the accumulated surplus/deficit with changes in net worth. It is reassuring that paragraphs .142 and .144 in Proposed Section PS1202 restrict the items that can appear in Accumulated Remeasurement Gains and Losses and Accumulated Other - I trust that these items will have permanent red flags attached to them by auditors. I mention this particularly because of concerns about pressure for pension revaluations to disappear from statements of operations. I strongly support most of the new material related to budgets and budget comparisons in Proposed Section PS1202 (pp. 33-36), and heartily endorse paragraph .193 in particular. I and have some suggestions intended to reinforce what I took to be the accountability-oriented thrust of this material: - I would add a section here that mirrors paragraph .020, such that budgets presented on a non-PSAS basis should contain such a disclosure. - I would reconsider paragraph .201. The multi-year capital budgets I am familiar with are not PSAS-consistent, so it would be good to avoid a statement that appears to endorse current practice. Multi-year capital budgets should be presented in a way that is consistent with annual budgets and statements of operations. - Perhaps an additional paragraph could address multi-year budgets in general. The key requirement is for formal annual budgets - that would be worth stating explicitly. - Perhaps paragraph .090 is not the best place for it, but I would favour a stronger statement about budget timing. Accountability for public funds requires legislators to authorize an expense before it happens. So formal approval of budgets should occur before the beginning of the fiscal year. I would welcome a statement to that effect. - For the same reason, although I understand the reasons provided for using an amended or different budget in paragraphs .198-.201, I would be glad of any further limitations the drafters can devise to guard against comparisons to budgets passed, say, more than half-way through the fiscal year.

Do you agree with the proposed consequential amendments outlined in Exposure Draft, "Consequential Amendments Arising from the Proposed Conceptual Framework?"

Yes

Please provide comments to explain your response above.

Please see comments in question 2.



Québec, le 14 juin 2021

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

Objet : Exposé-sondage – Projet de chapitre SP 1202, « Présentation des états financiers »

Monsieur le Directeur,

Nous vous remercions de nous donner l'opportunité de commenter l'exposé-sondage mentionné ci-haut.

Vous trouverez ci-joint la réponse du Vérificateur général du Québec relativement à cet exposé-sondage.

Veillez agréer, Monsieur le Directeur, l'expression de nos sentiments les meilleurs.

La vérificatrice générale du Québec,

Guyline Leclerc, FCPA auditrice, FCA

p. j. Réponse

- Appuyez-vous le projet de nouvelle norme sur la présentation des états financiers?

Réponse

Nous appuyons le projet de nouvelle norme sur la présentation des états financiers, à l'exception des éléments discutés ci-dessous.

Image fidèle

Il est mentionné au paragraphe .020 que la législation peut obliger certaines entités à présenter des informations qui ne sont pas conformes au cadre conceptuel et que dans ce cas, l'entité doit indiquer clairement que ce n'est pas conforme. Une précision devrait être ajoutée pour mentionner que c'est acceptable uniquement lorsqu'il s'agit d'informations en sus de celles exigées par les NCCSP et qu'elles ne peuvent remplacer les informations exigées par celles-ci.

Caractère significatif

Il est mentionné au paragraphe .031 que l'entité n'est pas tenue de présenter une information exigée par une norme si celle-ci est non significative. Il serait souhaitable d'ajouter une précision pour définir ce qui est entendu par « non significative ». Antérieurement, le SP 1201.15 faisait référence au jugement professionnel et à ce qui peut influencer sur les évaluations et jugements des utilisateurs. Le cadre conceptuel proposé explique le concept à la section 7.40 jusqu'à 7.44, mais il serait pertinent que la précision soit également ajoutée dans le SP 1202.

Poste et sous-totaux (.037 et .038)

Le projet de chapitre SP 1202 permet l'ajout de sous-totaux supplémentaires selon certaines exigences énoncées au paragraphe .038. Nous sommes d'avis que cela devrait être davantage encadré et ne devrait pas permettre une présentation distincte des éléments inhabituels ou extraordinaires. D'ailleurs, le paragraphe .038 est identique à celui de IAS 1. 85A des IFRS, mais IAS 1.87 vient ensuite interdire la présentation des éléments extraordinaires. Un paragraphe équivalent à IAS 1.87 devrait être ajouté au projet de SP 1202.

Notion d'actif financier et non financier (.060)

Bien que cette notion existait auparavant, nous nous questionnons sur la pertinence et la clarté des précisions ajoutées. Au paragraphe .060 e) on mentionne que les actifs non financiers peuvent comprendre « Les actifs qui ne pourraient pas servir au règlement d'un passif financier ou être consacrés à des activités futures parce qu'ils sont grevés d'une affectation ». De notre point de vue, cela devrait concerner uniquement les affectations externes.

Introduction du concept de passif non financier et distinction entre passif financier et non financier à l'état de la situation financière (0.73 à 0.93)

Nous sommes en accord pour retirer la présentation de la dette nette à même l'état de la situation financière, ce qui aurait pour avantage de réduire l'écart de présentation avec les autres référentiels et ainsi simplifier la compréhension pour les utilisateurs. Toutefois, l'introduction du concept de passif financier vient, au contraire, complexifier la présentation, la rendre difficilement compréhensible et creuser l'écart avec les autres référentiels.

Nous nous questionnons sur la pertinence, à même l'état de la situation financière, de séparer des passifs en 2 catégories, telles que les PPP ou les revenus reportés découlant de paiement de transfert. Il est plus important à notre avis que l'utilisateur ait un portrait de l'ampleur de chaque passif dans une même et unique ligne plutôt que de le séparer en 2 catégories, et cela, uniquement pour faciliter le calcul d'un indicateur.

La complexité de ce nouveau concept se traduit également par un nombre très élevé de notes de bas de page : 12 notes de bas de page sont présentes dans cette section, plusieurs ayant une dizaine de lignes. Cela démontre que la notion de passif non financier n'est pas suffisamment claire dans la norme elle-même. Nous ne sommes pas en mesure d'évaluer si ce concept répond à un besoin des préparateurs et des utilisateurs des états financiers.

Définitions et modifications corrélatives du SP 1202

De plus, cela vient affecter la définition des actifs et passifs financiers telle que décrite dans le SP 3450 (Instruments financiers). L'introduction des actifs et passifs d'instruments financiers portera grandement à confusion et nous éloignera davantage des autres référentiels. Les concepts liés aux instruments financiers, étant déjà difficilement compréhensibles pour les utilisateurs, le fait de s'éloigner des définitions reconnues n'est pas souhaitable à notre avis. Nous remarquons aussi les effets à ce sujet dans les modifications corrélatives. À cet égard, cela complexifie aussi dans les modifications corrélatives l'application de la norme sur les transferts SP 3410 puisqu'on doit changer au fil du temps la comptabilisation initiale à titre de passif financier, lors de la réception du transfert en capital. Ultérieurement, lors de l'acquisition et du développement ou de la mise en valeur de l'immobilisation corporelle, cela devient un passif non financier. Nous ne voyons pas l'utilité de faire ces nuances et changements de comptabilisation au fil du temps.

Notes de bas de page 18 et 23

Dans les notes de bas de page 18 et 23, on vient énoncer une prise de position sur la norme SP 3100 (Actifs et revenus affectés) qui ne figure pas dans le chapitre lui-même. En effet, la note 18 mentionne ceci : « Ce chapitre ne permet pas la comptabilisation des revenus sur la durée de vie utile de l'actif correspondant, qui est seulement permise, dans le cas d'un transfert en capital, en vertu du chapitre SP 3410 ».

Or, l'exigence dans la norme SP 3100 est plutôt libellée ainsi :

SP 3100 .11 Les rentrées grevées d'affectations d'origine externe doivent être constatées à titre de revenus dans les états financiers du gouvernement dans l'exercice au cours duquel les ressources sont utilisées aux fins prescrites. Les rentrées grevées d'affectations d'origine externe qui sont reçues avant l'exercice au cours duquel elles pourront être utilisées aux fins prescrites doivent être présentées à titre de passifs jusqu'à ce que les ressources soient utilisées aux fins prescrites.

De plus, la comptabilisation des revenus sur la durée de vie utile de l'actif est permise uniquement lorsque les exigences des paragraphes SP 3410.19 et 25 sont rencontrées et que les modalités d'application des paragraphes .20 à .24, .26 et .27 ont été prises en considération.

À notre avis, il n'est pas approprié de prendre position dans une note de bas de page sur la comptabilisation d'un élément non précisé dans la norme à laquelle on réfère et encore moins dans un chapitre portant uniquement sur la présentation aux états financiers. Cette mention devrait être supprimée des notes de bas de page et être traitée ultérieurement dans un projet de mise à jour du chapitre 3100.

Présentation de l'état de l'actif financier net ou passif financier net (dette nette) (.100 à .104)

La présentation de l'état de l'actif net ou passif net devrait être obligatoire uniquement pour les gouvernements seniors et optionnelle pour les autres types d'entités du secteur public. Cela éviterait d'alourdir la présentation des états financiers lorsque les entités autres que les gouvernements seniors ne considèrent pas la présentation de cet indicateur comme étant pertinente pour les utilisateurs.

Le calcul révisé semble complexe, en particulier la distinction entre les passifs financiers et non financiers. Si les gouvernements sont en accord avec ce calcul, nous suggérons que cette distinction soit uniquement présentée dans cet état et ne vienne pas affecter et complexifier inutilement la présentation de l'état de la situation financière.

Au paragraphe .102, on exige d'expliquer directement dans l'état de l'actif ou passif financier net la signification de l'indicateur. Nous sommes en désaccord avec le principe d'ajouter des notes à la face même d'un état. Cela ne respecte pas, à notre avis, la nature synthétique que devrait avoir chacun des états et ouvre la porte à ce qu'autres types de notes soient ajoutées directement à la face de ceux-ci. Les notes devraient toutes être incluses au même endroit, soit dans les notes complémentaires. Nous avons la même préoccupation concernant l'exigence à .196 concernant l'explication de la raison pour laquelle la comparaison entre les montants réels et budgétés n'a pu être effectuée.

Capital-actions (.146 à .150)

Le projet de norme vient introduire une notion qui n'est pas présente dans les NCCSP actuellement, celle de capital-actions. Nous sommes en accord avec cette notion à condition que ce soit clairement indiqué que cela ne concerne que le capital-actions émis, afin d'éviter que des éléments ressemblant à un surplus d'apport, soient comptabilisés directement à l'état de l'actif ou passif net. À titre d'exemple, concernant l'aide gouvernementale, il n'est plus permis d'être comptabilisé à titre de surplus d'apport depuis le retrait du SP 3800 « Aide gouvernementale » en juin 2010. Cette position devrait être maintenue dans le nouveau modèle pour ne pas créer de nouveaux enjeux.

Cette mention de capital-actions émis est effectivement présente dans les paragraphes .146 à .150. Nous suggérons toutefois que le terme « émis » soit ajouté au sous-titre de la section afin d'éviter toute confusion.

Utilisation d'un budget modifié (.198)

Nous sommes en désaccord avec une partie du paragraphe .198 b) qui permet à un organisme public de présenter un budget modifié. Nous comprenons que cela est pertinent pour un nouveau gouvernement élu, mais nous nous questionnons sur la pertinence dans le cas d'un nouveau conseil d'administration (CA) d'un organisme public dont les membres sont nommés. Même si les membres du CA changent, cela ne veut pas dire que les activités de l'organisme vont changer. Celles-ci étant encadrées par des lois et règlements, contrairement à un nouveau gouvernement qui peut annuler, modifier ou instaurer de nouvelles mesures, lois ou règlement. Par conséquent, nous sommes d'avis que l'exception permise au paragraphe b) devrait être supprimée.

Exemples d'état financiers

Il y a 5 exemples d'états financiers selon les secteurs, mais ils sont presque tous identiques, à quelques détails près. Nous nous questionnons sur la pertinence d'en avoir autant s'il y a peu de distinctions entre chacun des exemples. Nous suggérons soit d'en retirer ou démarquer de façon plus importante les exemples les uns des autres en ajoutant plus d'éléments qui sont propres à chaque secteur. Il pourrait également être intéressant d'avoir un exemple pour les « autres organismes » qui sont importants en termes de nombre d'entités et souvent assez différents des autres secteurs.

Commentaires généraux

Crochets au début des paragraphes

Nous tenons à souligner que la présentation proposée de l'exposé-sondage, avec les crochets au début de chaque paragraphe pour indiquer ce qui est repris des chapitres SP 1000 et SP 1201 ou ce qui est nouveau est une excellente pratique. Il serait grandement apprécié que le CCSP procède de cette façon pour d'autres exposés-sondages, car ça facilite grandement la lecture et l'évaluation générale des changements apportés.

Références au cadre conceptuel

À plusieurs endroits dans la norme, on fait référence à un chapitre précis du Cadre conceptuel (par exemple, aux paragraphes .001, .004, .009, .039). Or, il est mentionné au paragraphe 1.07 du Cadre conceptuel que celui-ci ne fait pas partie des PCGR. Nous trouvons incohérent que des références soient faites dans une norme à des concepts expressément exclus des PCGR. Comme mentionné dans notre réponse au Cadre conceptuel, nous sommes d'avis que la mention faite au paragraphe 1.07 devrait être retirée. Si ce n'est pas le cas, nous nous questionnons sur le bien-fondé de conserver les références au Cadre conceptuel inclus dans le projet de norme SP 1202.

Base des conclusions

Il est indiqué à BC.024 d) que le déplacement de l'indicateur de l'actif ou passif financier net dans son propre état donnait l'occasion au CCSP de déterminer si certaines entités du secteur public devraient présenter cet indicateur. Or, il n'est pas mentionné dans le projet de norme SP1202 à quelles entités cela s'applique ou pour quelles entités cela pourrait être optionnel. Nous sommes d'avis que cela devrait être déterminé dans le cadre du présent projet et mentionné clairement dans la future norme SP1202. Le même commentaire s'applique au paragraphe BC.115.

Au paragraphe BC.065, on mentionne ceci : « La théorie comptable dont découle le modèle axé sur la gérance (...) ». Nous ignorons à quoi on fait référence dans cette phrase puisque ce concept semble peu connu. Il s'agit peut-être d'un problème de traduction, mais nous suggérons de modifier le libellé afin qu'il soit plus compréhensible.

Nous suggérons de supprimer le paragraphe BC.145 concernant le capital-actions. Il est clairement indiqué que seul le capital-actions émis peut être comptabilisé dans cette composante de l'actif ou passif net. Le paragraphe .145, en voulant préciser davantage par rapport aux transferts et aux prêts, semble permettre autre chose. Cela apporte plus de confusion que de précision et nous ne souhaitons pas la création de surplus d'apport ou d'autres formes en capital que le capital-actions émis.

- Êtes-vous d'accord pour que la date d'application de la norme sur la présentation des états financiers, c'est-à-dire le chapitre SP 1202, soit le 1er avril 2024?

Réponse

Étant donné que cela devrait toucher uniquement des éléments de présentation, le 1er avril 2024 semble raisonnable, à condition qu'il n'y ait pas de délai dans la publication de la norme.

Toutefois, les gouvernements auront à appliquer la norme SP1201 pour les exercices en vigueur le 1er avril 2022, puis la nouvelle norme SP 1202 au 1er avril 2024. Par conséquent, nous nous questionnons sur le fait de changer à deux reprises la présentation des états financiers dans un court délai. Le CCSP pourrait se pencher sur cet aspect.



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

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, standard setters presume that those who use the resulting information have a reasonable knowledge of economic activities and some understanding of financial reports.”

Other items of concern:

- 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.

**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.

CAGFO PSA Committee Comments

The Conceptual Framework

- Several people commented that this didn't seem like significant changes – more of a fine tuning of some of the concepts of the characteristics of generally accepted accounting standards and principles
- It was seen by some as taking existing principles, concepts, opinions, and related “sections, guidelines and appendices and illustrative methods” as set out in 1150 and putting it in one place in an updated format – a positive is that instead of looking at various articles, opinions and writings, this does put it all together in an expanded format since the original section
- Some wondered: what is the purpose of the change, what problem are we trying to fix? What is the target we're trying to get to? 1.15 lists the objectives, and it was generally understood that this was a 'refresh' intended to be future ready, yet still some questions about whether there were other purposes or did the board consider specific pieces of the existing handbook to be problematic. There were some concerns stated about the amount of change, new standards, and the pace – not necessarily disagreement, but concerns of capacity.
- **7.08 Faithful representation** – overall agreement on the characterization of faithful representation; the idea that a set of standards can't specify every possible disclosure that might be required or not required. Professional judgment must be used given the myriad of possible circumstances.
- **Representational faithfulness** – While there were comments about the substance over form conversations, there were positive comments that the new qualitative characteristics in chapter 7 make existing concepts clearer. People liked the concept of faithful representation. There has been a perception that some characteristics are or have been more important than others, for example, the belief that we need “perfect” information regardless of the cost. The balancing of the characteristics overall is key. There were favorable comments here about the benefit versus cost. While it's important to get strong and verifiable numbers, spending excess time, staff resources and money on getting from good to perfect detracts resources from other work that users will find useful. Comments were made about the audit process here in that auditors can often want more perfect information than is available and to a level that isn't going to increase the usefulness or “faithful representation” of the information. Management needs the ability to determine certain thresholds and materiality within information and management then takes the risk of those decisions. As users become more “demanding” and information becomes more complex, this “nit picking” by auditors needs to be tempered. With many new standards coming into play, such as ARO, and others into the future, it is important to get this implemented and report the information. However, it is also important to note:
 - ARO, pension obligations in the future, will have volatility due to factors other than decisions made by the government. The changes in interest rates will impact the present value. In reality, governments can make decisions about when/timing based on market factors such that they will navigate and mitigate costs based on those factors. There are concerns that the F/S, surplus, net debt will change from year to year in a way that won't seem reasonable to users/council/boards. This will add skepticism and

reduce confidence in the information as it will cause large swings in the financial position which may not be likely to occur.

- Other comments, though, were that this language just flushes out and clarifies already existing concepts which is also useful
- **7.12 – 7.14 Substance over Form** – this created some discussion. The belief was generally that legal form is quite black and white whereas the substance is grey and complex. The topic is dichotomous because people want more specific examples and guidance but, at the same time, recognize this is complex and requires individual solutions.
- People generally felt this substance over form concept would cause more work and “conversations.” “Substance” while it makes more sense and is necessarily grey to accommodate complexity, could also lead to subjective opinions and biases. Do the assumptions ever get questioned retroactively? That is, at what point is it better/more information as opposed to an error which requires retroactive restatements? If a subjective opinion leads to a substance over form application, who and how is it decided that this was an error? The concept is that some of this may only be known in the future, i.e., at a future date we realize we were incorrect. Guidance might be useful in this area as entities typically would favor not restating; the idea is that, if the new information or change isn’t material, or if a change retroactively doesn’t have an impact, then it seems unnecessary, however, if a change would be impactful and we “should have/could have” done this differently, it seems a restatement is appropriate.
 - The thought here is that, if there is more discretion and more “grey” area to accommodate complex situations, that is a positive, however, it needs to be balanced with skeptical review of the facts if they change. Example: an entity has a grey area over whether a liability should be recorded and believe/prove that it doesn’t need to be recorded based on the substance. However, the situation evolves such that there is evidence that it is a liability – is this merely a change going forward? If there is greater discretion, should the “bar” for retroactive restatement or considering this to be an error be lower to provide a balance?
 - Most also agree, though, that it’s important to look at the true nature of a transaction which black and white application of legal form and agreements may not provide; while there were questions around this, it was considered a necessary principle
 - Examples would be helpful of the differences and how to apply them
- **2.27 Basis of accounting and 6.28-6.31**
- There was significant discussion around the sections 6.28-6.31
- The bulk of the discussion was initially around some confusion on what is recommended versus mandated. That is, does the budget have to be a PSAS budget or can there be a modified budget/reconciliation/disclosure such that the actuals are compared to a PSAS budget (could be approved budget or a modified/reconciled version of the approved budget). While this was answered in the online Q&A forum, the conversation is still valid for future consideration.
- Budgets are prepared in multiple different ways ranging from PSAS, partially PSAS, cash, cash with some accruals taken into consideration, and PSAS. Certain items aren’t always budgeted for either. The municipal/cities acts in each province legislate how the budget is to be prepared, therefore, if the municipal act dictates a cash budget, it will be difficult to get to a PSAS budget. Guidance would be helpful around this.

- Some cities do a PSAS budget but then there are explanations of how this relates back to cash in the year and the general or other operating surpluses which are used to determine rates.
- There was considerable discussion around the concepts of operating expenditures/cash out the door, vs expenses on the F/S, and consideration of future costs such as closing the infrastructure gap. A PSAS budget would look very different depending on whether a city is growing and spending significantly on capital assets as compared to a city that is not spending on TCA and has low amortization costs. This led to questions such as:
- Should we disclose future capital costs such as the infrastructure gap in our notes? Is this any different from ARO? ARO must be a legal obligation to be reported, but should there be disclosure in the notes or other performance reporting on other future costs.
- There was frustration expressed by multiple commenters around the apparent lack of assurance around the budget. If the budget is an important document, and needs to be modified to PSAS for comparison on the body of the SFP, then there should be some standards for faithful representation around budget, consistency around the variance process, how surplus transfers/reserves are used/moved around in a year. Budgets themselves aren't audited nor is there any requirement for external review or assurance of any kind other than as a comparison to actuals on the F/S. After the fact.
- Surplus is "below the line" which means prior year surplus (reserves, etc) isn't revenue in the current year, but it is in the budget. Current surplus transfers contribute to surplus, but are also "below the line." It's not clear necessarily how surpluses work when one looks at the PSAS statements which means this entire aspect of the budget and of public sector finances is often not clear to the user. It might be prudent to have more requirements/disclosure around these elements right in the F/S as notes or schedules.
- Comments were that the budget is usually a public document which attracts a lot of "importance" and resources while there is less importance or resources into financial statements, audits and PSAS work. Institute of Internal Auditors has a standard that their work should be adequately resourced. Professionals in the industry need to have reporting independence and adequate resources. Otherwise, internal audit is not effective and can be merely a check mark. Perhaps it's time for a similar requirement with PSAS, audits and financial statements. If PSAS are important for transparency and disclosure to the public and stakeholders, then an external auditor should assess the "readiness" of an organization to meet future requirements. Almost universally, those who deal with this work feel very unprepared.
- There was a comment (agreed upon by others) that it appears the purpose of the note/comment on the face of the SFP to state when the budget could not be prepared or isn't an original budget is to support good governance. A budget is an important document as is comparison to the budget, therefore, if that isn't or can't be done, it is important for stakeholders to be aware. If PSAS can be used to strengthen governance around the budget and/or the reporting against the budget, that is a positive for stakeholders. Stakeholders need to be able to rely on not only the budget but the "what we actually did" end results. A better place, though, would be to require a note disclosure for how the budget is prepared, and other pertinent information related to the budget and the budget process. The comments were that not only is it a good idea to "prove" the budget is approved and original, but there should be some standards around how budgets are created; standards that show diligence, accuracy, and "faithful representation" in the variance process. Otherwise, any comparison to the budget isn't

useful. While budgets are an internal policy, the document is usually very publicly available; if the intent is that the audited financial statements must show a comparison to the budget, then the budget itself by extension should meet some parameters and be subjected to some level of assurance

- Around the above concept, one group raised the possibility more specifically about PSAB or some subset working with provinces, territories and others to get them in line with reporting requirements and budget standards. One City is in a situation where they have to report based on the legislation of 2 different provinces due to geographical location. The requirements are significantly different. How comparable, then are we? We have a national set of standards but provincial differences. We're moving towards IPSASB but have provincial differences.
- The common concepts broadly agreed on were that:
- Budget should match what provinces ask for which is cash based, and the government should/could have a reconciling note in the F/S to show how they got from cash to a PSAS based budget for the SFP
- If the budget wasn't what is required, this should be disclosed in a note but not on the face of the statements, but there should be requirements around the budget itself and how it is prepared
- Or some felt it was a good practice to have the PSAS budget/reconciliation prepared for inclusion in the budget document, if possible (that presents timing challenges with multiple entities and differing year ends), even if it's a second budget or reconciliation as this shows the budget was considered/prepared with PSAS and the end reporting results as a consideration.
- Virtually 100% consensus that PSAB should not dictate the budget, now or in the future, especially not without the approval/collaboration of the provinces/federal government as to PSAS or cash based; yet there was supported to have recommendations from PSAB for cities that do a PSAS budget or on how to reconcile/present the differences. There was also support for governance/SORP or even requirements that variances against the budget clearly indicate transfers of surplus to/from reserves that occurred and the impact on the results
- People almost unanimously did not like the idea of the comment on the face of the SFP about the budget. The F/S are audited. If there is a deficiency, that would be noted in the auditor's report or, if sufficiently deficient, there wouldn't be a sign off. There is a place in note disclosure for lack of compliance. Between the management letter, auditor's report, note and the ability to provide an opinion, that is enough discussion about whether or not the budget is suitable, especially given the above comments.
- People wondered why this particular issue warrants a "red flag" on the face of the statement of financial position when no other issues or problems have warranted that in the past. It seems to put an unduly high level of importance to the budget even over and above the statements themselves and financial information, yet there are no assurance requirements around the budget; this seems contradictory.

Financial Reporting Model

- **Statement of Financial Position**
- A few comments that they were pleasantly surprised at the new "look" as changes can sometimes be for the sake of change and/or not an improvement. This appears to be a net

“win” without excess change. While it is significant effort to modify accounting, create new information and formatting in some audit/reporting systems, the information is already available.

- Exception to this is that the remeasurement info isn’t available yet – it remains to be seen how much effort that piece is.
- Comments about the remeasurements statement – general agreement from those that commented that it was a good choice to implement/approve the narrow scope amendment on foreign exchange. For some entities, it makes more sense to include this in the surplus immediately. For others, it makes more sense to report it separately to avoid the fluctuations that may, or may not, ever become realized. However, there were comments and questions about the ARO, and upcoming pensions standards. These have components that are based on market rates/interest that can also cause significant fluctuations and also may not be realized.
 - Commenters said that these big swings year over year make the F/S difficult to explain, they don’t seem “real”, and it causes a lack of trust or increased skepticism around the numbers. Organizations can make decisions to increase recycling, charge for garbage and others thereby decreasing the speed at which a landfill is used which would decrease the real cost. Decisions can also be made, usually, around how to cap and close, some work can be deferred, new technologies arise that can decrease costs between now and decades from now. Therefore, to have liabilities that increase dramatically due to an interest rate change doesn’t seem “real.”
 - Some of the concerns with the pension project are around this similar issue. Over time, decisions have been made that would be difficult to change, and a realistic liability or cost of post- employment benefits is reasonable to disclose or report. However, having this number change year over year dramatically due to factors that may never happen isn’t reasonable. Yes, F/S are the best information at the time, and many numbers, and estimates can change. However, the longer the time frame, the more market factors come into play which may cause fluctuations that will never be realized.
 - Is this an area that PSAB could consider allowing a remeasurement type of format?
- Respondents liked/loved/were enthusiastic about the new look of the F/S and felt the “balance sheet” looked more like what board, leaders and the public expect to see in a financial statement. This would make it easier to read, understand and compare. No negative comments about the new presentation.
- One commented that it even looks more familiar to people who understand IFRS as compared to the current F/S format.
- There were questions around some of the newer pieces such as examples of a non- financial liability or the “other” category; it can be difficult to visualize this if you don’t have real examples in your own entity/government. The webinars provided some clarity around this, and it was generally accepted that this was to leave room for the future “what may happen” scenarios
- Net Debt – people did agree users found this confusing and the new presentation gives it less emphasis on the SFP such that users could go to the other statement for more information which some will do, and others won’t. Divided opinions on the new statement with some

believing it provided useful information with the ability to provide more detail while about 25% felt it was unnecessary entirely and could be a note.

- Some commenters didn't like the name "accumulated surplus." They believe it's not intuitive to most people. Most use the word equity when discussing this with leaders, boards, council etc.
 - Why not just call it equity was asked by a few commenters
 - It can be considered "owner's equity" in that the owners are the rate payers/citizens to whom the services/resources flow, in the opinion of some respondents
 - It isn't \$ per se that is owned by shareholders, but the purpose of the governments are to provide services to constituents. Service capacity if a term being used more often and as well in the exposure drafts, therefore, it was seen as logical that the beneficiaries of that service capacity are the owners
 - If the term is maintained as accumulated surplus, then perhaps a description somewhere that explains what this really is that could be used by governments in general
 - While many do describe this as "balance sheet" or "income statement" and equity or "retained earnings" the language used is.... the SFP is like the balance sheet, accumulated surplus is like owner's equity, but a more agreed upon term that all could use would be helpful. People don't want to be inconsistent with the intent of PSAB, but they also want to be able to use language and know it's acceptable to use. There wasn't any kind of consensus or even strong agreement on what term would/could be used
 - However, others didn't like the idea of calling it owner's equity, because while services accrue to citizens, equity assumes cash is "owned" by the citizens or flows to them.
 - Equity sounds like profit and loss which isn't the core of public sector financial statements
 - These respondents agreed that accumulated surplus is more correct, but they use "layman's terms" when explaining these pieces to their constituents, council, boards, politicians and other stakeholders.
 - Others felt that Equity is confusing as it reduces the concept that public sector is different than private sector.
 - Most agreed this is a term that is important to explain to stakeholders in a depth beyond what is in the F/S. Trying to put too much into the F/S would make them cumbersome, so some details just need to be explained separately. This followed similar thinking to why there shouldn't be statements/disclaimers on the face of the SFP (budget). Respondents around the disclaimers or explanations about the budget and/or the explanation on the Net Assets statements felt that
 - I look at the numbers for F/S which are objective
 - The footnote/explanations are just messy, subjective and detract from the other information
 - "Tell the story elsewhere"
 - While there were varying opinions on the language, it was acknowledged that what was important was to have an opportunity to explain to stakeholders, such as boards/council how public sector statements differ from the private sector; perhaps a statement of terms, definitions would be helpful in the future to help describe these items in a way that would/could be used broadly for consistency. About 25% didn't like the term

accumulated surplus, about 50% felt it was necessary and shouldn't use terms like equity and the rest had no opinion.

- **Statement of changes in net financial liabilities or assets**
 - Some wondered if this negated or replaced the current note disclosure on the accumulated surplus; since we are now reporting several sections of information in one statement, it's concise. The comment in the draft is that one could have supplemental information such as schedules, but it's not needed/mandated
 - Seems this presentation reduces the required disclosure around the items that make up accumulated surplus currently, subject to the comment below
- Since Net Assets will be broken into 3 components, and this is an important (albeit confusing to some) component of financial statements, it is useful and informative to have a statement of changes in net assets:
 - This calls out the information right on a statement and not just in note disclosure
 - Makes more sense as to how surplus works, what comprises surplus, and how much is in each category
 - Remeasurement statement is also a positive in now being able to (along with the related standards) show unrecognized changes in certain elements
 - This could open a conversation that should be had around surplus
- **Statement of net financial assets:**
 - While this is a new statement, since it pulls from the existing data, it didn't seem that new to some commenters but also not much work to add this
 - People generally liked the option to include more explanation or not; in some situations, it could be beneficial to put information here and thereby answer questions right in the document. Others felt it was better to explain this in meetings using presentation information that is more than could reasonably be captured here
 - People generally did not like the idea of including the meaning on the face of a financial statement. Similar to comments about the budget comment on the face of the SFP, people feel you shouldn't have to explain this right on the statements. The explanation could either be in a committee or related document, since typically an organization would provide supplementary information, reports with the financial statements. If deemed necessary, perhaps a note to explain the meaning/purpose of each statement. Or include it in the discussion and analysis. Generally, it was believed most organizations, when presenting F/S or annual reports, this type of explanation and supplementary information would be in the form of an introduction, a committee report, or other attached report. Some cities use a glossary at the end of the annual report where this could also follow
 - It seemed, like the budget comment option on the SFP, to be odd to explain certain pieces but not others. What makes a particular piece or comment more relevant than the rest? If there are requirements that are particularly important, have a requirement or SORP to include this information in an attached document, appendix, glossary, report such that, when it goes public, the information is readily available.
 - Further, several felt this was not the most complicated piece as noted before, some find the accumulated surplus/annual surplus/op surplus numbers to be confusing while

others thought the remeasurement concept is confusing. There is no shortcut to having good supplementary reports or information to present financial statements.

- **Other comments**

- Summary is that F/S aren't stand-alone documents; they need schedules, notes and supplementary information. Going forward, the new concepts and reporting are moving in the direction of more information whether or not it's in the annual report/Financial Statements. Climate change, green accounting, compliance, more budget information, variance information, risk, environment of the organization...the type of information that is presented to rating agencies, financial institutions, boards could be a more formal requirement to be attached to, form part of, or be presented publicly with financial statements and these items could form part of that.

- **Implementation Date:**

- Many thought this would be a challenge. With ARO, a suite of standards around exchange/portfolios, then the revenue standard, this is a lot to manage back-to-back such that a new standard would be challenging.
- Comments that it would be good to get the ARO/others upcoming standards done, in place and "socialized" before a change to F/S.
- The idea of having this early adoptable was good for those ready for it as they do like the new look but believed there was a lot already going on especially with Covid 19 continuing.
- Some said it would depend on the guidance especially around the budget piece and what might need to change/be disclosed.
- More work required around revenues and related contracts and agreements in order to determine the "other side" which is the liabilities/non-financial liabilities
- Some wondered if PSAB could consider which pieces were impactful, i.e. were certain sections more important for some PS entities to implement right away. If yes, then could the board focus on narrow scope amendments or changes to legislation to allow for those pieces. Allowing certain changes to be done soon would create support for other changes. These items could be modified early and optional to adopt. Goodwill was a term one respondent used.

- **Covid-19** – no one or not many expected this to continue this long. While organizations and people have adapted, this will have a lasting impact on how we work, engage with our teams and so on

- **Covid-19** is still impacting work. For the 2020 year, many of our people were existing staff, trained and engaged. As people leave and new hires come on board, it has been difficult to on board, train, engage with people and many leaders are feeling we've "lost people" or engage is down. Until we can get back into physical spaces to meet, engage and conduct business, the work is seen as more difficult this year by some. Some work is easily done remotely while other work is manageable but not as smooth and yet more work is just better with in person collaboration.

- The pandemic will continue to impact organizations as people come back to the workplace. Some will come back, some part time and some will remain remote with, perhaps, occasional meetings. This takes more time and energy to train and in some cases, monitor work

- People are under stress and duress. Many haven't seen family, missed family occasions, and haven't been able to travel or take vacation and/or the vacation time isn't what one would hope for. When "the world" opens up, there will be a push from leaders, boards and council to get even more work done. Simultaneously, exhausted people are going to want vacation and travel. This is a real scenario. Capacity in 2021 and even 2022 will look different. In the accounting industry and profession, work gets done by people not having balance. Too much work, too long of hours, and continually tight deadlines. While this is a separate issue from 'accounting standards' too big of a push too soon will lose support for important changes. This speaks to the comments earlier around a requirement to appropriately resource work; work that is important gets resourced and measured.
- Overall, the summary is that the group generally feels it would be prudent to adopt and implement ARO, Revenue, and the remeasurement related standards first and then have a bit of time before the new presentation model. It is felt that, referencing municipalities in particular, that the revenue standard could be more work than it appears and is on the heels of several others. If ARO, remeasurement standards are all implemented for the year ending 2023, then revenue in 2024, 2025 is quite soon and it is believed this is more of a change than it seems. An early adoption provision should be provided for those that can, but where these other standards are significant, there is likely significant work coming out of them for a couple of years.
 - Lastly, a reiteration that examples would be helpful, that is, real examples of a municipality or government F/S before and after the new reporting model as opposed to theory.



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 – *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.

Given the importance of this document in terms of future public sector financial reporting, we are pleased to submit to the Board our response below to the specific questions posed in the Exposure Draft.

Sincerely,

Lissa Lamarche, CPA, CA

Assistant Auditor General
Office of the Auditor General of Canada

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

Question 1

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

OAG response:

We agree with the majority of the principles in the proposed new financial statement presentation standard; however, there are a few areas where we do not agree with the proposals along with several areas where we think clarifications or improvements to the proposals are needed, as outlined further below.

Areas of disagreement include:

Meeting the Financial Statement Objectives (paragraph .039-.206)

Statement of net financial assets or net financial liabilities (paragraph .100-.104)

We do not agree with PSAB's proposal in paragraph .102 which requires an explanation of the meaning of the indicator of net financial assets or net financial liabilities on the face of this statement.

Currently, our PSAS entities provide an explanation of net debt in the notes to the financial statements. Providing this explanatory information on the face of the statement is not consistent with other similar information that is normally provided in the notes. We think that providing this type of information in the notes respects the principle in paragraph 3.13 of PSAB's ED: The Conceptual Framework for Financial Reporting in the Public Sector which states that "...standard setters presume that those who use the resulting information have...some understanding of financial reports." We think that by putting this information on the face of the statement, it could open the door to putting other similar information on the face of the financial statements, which may ultimately diminish the overall understanding of financial statements in general.

While presenting a sentence or two on the face of the statement as to what the indicator means may allow the indicator to be better understood, we think there are better ways that PSAB can meet the objective of educating its users.

Option to report the reasons for the change in net financial assets or net financial liabilities (paragraph .152-.153)

We do not agree with PSAB's proposal in paragraph .104 which allows entities to choose to provide information about the change in net financial assets or net financial liabilities and the reasons for the change.

By making this statement optional we think this could lead to a lack of comparability if some entities choose to present this statement and others do not. On the other hand, entities may simply not present this information and thus comparability will be indirectly achieved. In our view, the most important aspect of the change is the comparison of total actual capital expenditures incurred in the period with those originally budgeted which is still required to be disclosed. Therefore, if senior governments are not required to present this information, we think the option should be removed altogether in order maintain comparability, understandability and accountability. In other words, we think that PSAB should revert to its original proposal from the Statement of Principles whereby the changes in net financial assets or net financial liabilities are not presented for any entity.

In addition, we note in paragraph .152 that this statement should be presented only if the information is "understandable and useful for accountability purposes". We find this modifier to be at odds with the current requirement in the PSA Handbook to present a statement of changes in net debt. It would seem that this information is currently considered understandable and useful for accountability purposes and thus it is unclear what has changed that would render this information no longer understandable or useful.

We also find there is inconsistency in requiring a budget to actual comparison for the statement of changes in net financial assets or net financial liabilities (for all items other than capital expenditures which requires note disclosure of actual vs budget regardless) when this statement is optional. This also seems to suggest that this statement does provide important accountability information.

Therefore, we think that this modifier should either be removed or PSAB should explain what its intention was with respect to this modifier.

Areas which require clarification or improvement:

General Presentation Principles (paragraph .008-.038)

Fair presentation (paragraph .020)

We have concerns with the wording in paragraph .020 which addresses circumstances in which legislation requires an entity to present information that is not consistent with the standards or the Conceptual Framework. In these rare circumstances, this information is required to be clearly disclosed as being inconsistent with the standards and/or the Conceptual Framework.

This paragraph seems to conflict with Presentation Concept 3 in paragraph 10.21 in PSAB's ED: The Conceptual Framework for Financial Reporting in the Public Sector. Normally, when accounting treatment is not consistent with the standards and/or the Conceptual Framework, it is considered a GAAP departure. The meaning and intent of this paragraph is unclear and could be problematic as currently worded. For example, a government could implement new legislation in order to recognize, report or disclose something in a certain way even if it is not consistent with the standards. However, if the intent was that it is possible to disclose additional information not required by a standard, then we would view this as reasonable.

We recommend that PSAB clarify the meaning of paragraph .020 so it does not conflict with the concept of a GAAP departure and the requirements in CAS 210.18 which requires the auditor to "agree whether the additional requirements can be met through additional disclosures in the financial statements" or whether the "description of the applicable financial reporting framework in the financial statements can be amended accordingly." Per CAS 210.18, if neither action is possible, it may be "necessary to modify the auditor's opinion". We noted a similar comment in our response to PSAB's ED: The Conceptual Framework for Financial Reporting in the Public Sector.

Going concern (paragraph .026-.030)

While we support the inclusion of the concept of going concern in the proposed conceptual framework, we note that there could be tension between the proposed guidance on going concern versus the guidance in PS 3430, *Restructuring transactions*. PS 3430.05(c) states that this Section does not deal with "... discontinuance of operations that is not part of a restructuring transaction". This implies that PS 3430 deals with the discontinuance of operations that is part of a restructuring. It is unclear how this guidance links to the proposed guidance on going concern which states in paragraph .026 that (emphasis added) "...*Financial statements should...be prepared on a going concern basis unless the entity intends to cease operating...*"

In our experience, entities that cease to operate in the public sector often transfer their operations or programs to other entities which may or may not be part of a restructuring. The Basis for conclusions for PS 3430 paragraph 42 notes that "... a public sector entity is a going concern". We think it is therefore important for PSAB to help users distinguish between restructuring transactions and entities that cease to operate in their entirety which may trigger the presentation of financial statements which are not prepared on a going concern basis.

Aggregating (paragraph .032)

On the issue of aggregation, we note that PSAB has sought to clarify when aggregation would be required for immaterial items. PS 1202.032 specifies that "if immaterial items that do not share similar characteristics are aggregated, the information should be disclosed in the notes about the composition of the aggregated items..."

This requirement seems to contradict the concept of applying materiality and we question whether it will lead to unnecessary disclosures of immaterial information which ultimately detracts from other more significant disclosures. We note that this approach is not consistent with the approach taken by the IPSASB in IPSAS 1.46 (emphasis added) which only requires disclosure in the notes of dissimilar items aggregated on the face statements when that information is "sufficiently material". We would encourage PSAB to reconsider the inclusion of such a prescriptive requirement and clarify that disclosure is only required when the information is sufficiently material.

Meeting the Financial Statement Objectives (paragraph .039-.206)

Restricted assets or liabilities (paragraph .051)

PS 1202.051 discusses assets for which their use is externally restricted in perpetuity (e.g. endowments). While we acknowledge that including a discussion on restricted assets in the proposed standard is an improvement over the existing standard, we think that it introduces an additional area of inconsistency given that the proposed standard specifically addresses the impact of permanent restrictions on assets, but does not specifically address temporary restrictions on assets. For completeness, we think that PSAB should consider also addressing temporary restrictions.

Financial instruments (BC.095)

As explained in PS 1202.BC.095, we note that PSAB has proposed a consequential amendment to PS 3450, *Financial instruments* to refer to assets and liabilities that are financial instruments as financial instrument assets or financial instrument liabilities in order to remove a resulting inconsistency between the new definition of non-financial assets such as endowment investments held in perpetuity and financial instruments accounted for in accordance with PS 3450.

While we acknowledge that the proposed changes should help alleviate confusion between the two standards, we do acknowledge the possibility that it may also increase confusion and diminish understanding as PSAB moves away from common definitions that are used by other standard setting bodies such as IASB or IPSASB. While we acknowledge that these changes are necessary to align with the proposed calculation of net financial assets or net financial liabilities, we are somewhat concerned that the complexity being introduced will lead to a decreased understanding rather than an increased understanding of public sector financial statements.

In addition, while the proposed standard explicitly states that financial instruments may be presented as financial or non-financial assets (PS 1202.051), it does not make the same explicit statement for financial and non-financial liabilities although the same would be true as many liabilities that would be considered financial liabilities under the proposed standard are not considered financial instruments (e.g. asset retirement obligations or deferred revenue). We recommend that PSAB make this same explicit statement for liabilities, modified for the circumstances that would apply to liabilities (e.g. items that are not considered financial instruments that may be presented as financial liabilities).

Financial and non-financial liabilities (paragraphs .073-.091)

PSAB has introduced new classifications and definitions for the separate presentation of financial and non-financial liabilities. We find the definitions to be somewhat confusing and think they will be difficult to apply in practice. While we acknowledge that these two new classifications of liabilities align with the new calculation of net financial liabilities or net financial assets, we are concerned, as outlined in the previous section directly above, that the proposed definitions are overly complex and inconsistent with similar definitions used by other standard setting bodies which may ultimately reduce understandability.

Recognizing that most liabilities will be classified as financial liabilities, we would encourage PSAB to take a simpler approach to defining non-financial liabilities such as using the same simplicity as that used for non-financial assets in this ED (PS 1202.005b) – i.e. that “A non-financial asset is an asset that does not meet the definition of a financial asset”).

The current proposed definition of a financial liability in PS 1202.073 (emphasis added) indicates that it “is expected to be settled using financial assets” while the definition of a non-financial liability in PS 1202.084 (emphasis added) indicates that it “cannot be settled through the use of financial assets”. With the proposed wording for a non-financial liability, it would appear that non-financial liabilities would be rarer in nature. However, we think that the situation could arise whereby a liability does not meet either definition.

For example, a performance type liability that is only expected to be settled with financial assets in the case of a contract breach would not meet the definition of a financial liability because it is not expected to be settled using financial assets, but equally it would not meet the definition of a non-financial liability because it can be settled with financial assets. The difficulties with the current definitions can be further illustrated by a capital transfer that must be used in providing services for a defined period of time. In this example, PSAB has indicated that this would be classified as a non-financial liability once the tangible asset is constructed or purchased. Oftentimes such agreements may require repayment if the asset is not used as stipulated. In this case, it would seem that the definition of a non-financial liability is not met because the obligation can be settled with financial assets in those circumstances. The proposed non-financial liability definition seems to ignore intent and may lead to difficulties and inconsistencies in classification.

Furthermore, while we understand that PSAB expects unearned revenue to be presented as a financial liability in the majority of cases, we think this concept may also be somewhat confusing, especially when compared to prepaid expenses which are required to be presented as non-financial assets. PS 1202.BC.100 discusses the principle of spent and unspent contributions. We think that this principle may be easier to understand and the definitions applied in the context of government transfers. We would encourage PSAB to move some of this discussion to the main standard to help stakeholders make the distinction between financial and non-financial liabilities and promote consistency in application of the principles. While this added guidance would help address the classification of liabilities arising from government transfers, it would not address other types of unearned revenue (e.g. deferred lease inducements, deferred rental income, or prepayments) which may be more difficult to classify based on the proposed definitions of financial or non-financial liabilities. As noted above, we think that PSAB should consider simplifying the definition such that non-financial liabilities are those liabilities that are not financial liabilities similar to the approach taken for non-financial assets and provide more application guidance to help in this area.

Finally, we think that PSAB should consider adding a footnote to the illustrative examples which currently presents unearned revenue as a financial liability, as some types of unearned revenue may be classified as a non-financial liability.

In summary, while we are generally supportive of the direction PSAB is taking with respect to financial and non-financial liabilities, acknowledging that this approach supports the new calculation and presentation of net financial assets or net financial liabilities, we think that the proposed definitions will be problematic, more guidance is needed in the standard, and we are questioning whether this proposed approach will ultimately achieve PSAB's objective of increasing understandability of public sector financial statements. We would encourage PSAB to reflect further on these proposals to ensure that they lead to an increase in understandability rather than a decrease.

Reporting changes in financial position (paragraph .105-.185)

PS 1202.109 mentions the optionality of presenting changes in net financial assets or net financial liabilities but this paragraph does not align with the wording used in paragraph .152 which provides that the change can be presented on the statement of net financial assets or net financial liabilities, "as long as the information presented is understandable and useful for accountability purposes". For consistency, we think the wording in these two paragraphs should be aligned.

Statement of changes in net assets or net liabilities (paragraph .127-.151)

We think that PSAB should consider adding a budget component related to accumulated other such that public sector entities are also held accountable for revenues and expenses recognized outside of surplus or deficit and recognized directly in net assets or net liabilities. We think this would be an improvement to the current proposals.

Share capital (paragraph .146-.150)

We note that PSAB has added a new section to address share capital. While we are supportive of the inclusion of this new section as it addresses a current gap in the existing standards, we find the inclusion of share capital to be somewhat inconsistent with PSAB's decision not to add ownership interests as an element in Chapter 8 of the proposed conceptual framework. The reasons provided in the Basis for conclusions of that document include the fact that differentiating ownership contributions and government transfers for many public sector entities was problematic (BC8.37) and yet PSAB has included a section on share capital in PS 1202. While this proposal does specify in PS 1202.146 that "It is important to distinguish issued share capital from other economic obligations (e.g. government transfers or loans)", it does not provide any guidance on what to consider in making this determination.

While share capital in public sector entities may be rare, we do have entities with share capital. Based on the current PS 1201, we have historically taken the view that since PSAB does not define ownership interests as an element in its conceptual framework (unlike IPSAS), these interests should be recognized through surplus or deficit. PSAB's proposal does open the door to accounting that would be similar to how IPSAS accounts for ownership interests but without the added guidance that IPSAS provides in Chapter 5 (paragraph 5.33-5.37) of its conceptual framework. We think PSAB's approach could have unintended consequences. We have seen instances whereby the government has provided cash infusions to public sector entities to essentially fund program delivery through the entity's issuance of shares, instead of opting for traditional funding agreements / appropriations.

For example, if a government provides funding to a public sector entity through on-going preferred share issuances by that entity, it could be argued that the preferred shares issued represent an investment in the entity, but it could equally be argued that the funding provided through this mechanism is simply another way of providing government funding to this entity. Without additional guidance on assessing substance over form, it would be difficult to apply the existing guidance on a consistent basis.

We therefore recommend that PSAB consider whether a distinction should be made between shares issued on the creation of an entity versus shares issued for other purposes (e.g. financing) as this may also help with the substance over form assessment as well as improve consistency when accounting for similar transactions, where appropriate.

In addition to the concerns we have raised above, we see a number of other inconsistencies in the PS 1202 proposals in relation to share capital as follows:

- Paragraph .132 states that (emphasis added) "decisions to recognize a revenue or expense arising in a period outside that period's surplus or deficit are made only in exceptional circumstances". The underlined wording may suggest that only revenues or expenses can be recognized outside of surplus or deficit but it is not clear what PSAB considers ownership contributions or distributions to be as they are not defined and these are not defined as elements in the proposed conceptual framework.
- Paragraph .147 states that (emphasis added) "when an entity has issued share capital, it should report it as a separate component of net assets or net liabilities on the statement of financial position and in the statement of changes in net assets or net liabilities" and yet paragraph .095 makes no mention of share capital so it is unclear whether share capital is meant to be one of those circumstances for which accumulated other is being used or whether share capital is meant to only be disclosed in the notes as some sort of reserve. In addition, none of the illustrative examples in Appendix A to F present this item. We think this lack of clear guidance may lead to a lack of understandability and comparability may be diminished;
- There is no mention of share capital in the Statement of Cash Flow (SCF) section of the proposed standard. While IPSAS 2.8 provides that in addition to borrowings, financing activities include "changes in the size and composition of the contributed capital of the entity", PSAB's definition of financing activities only includes debt. Without clear guidance on how share-type transactions should be presented in the SCF, understandability and comparability may be diminished.

While share capital is rare in the public sector, it does occur and without clear and prescriptive guidance there is a risk that public sector entities may turn to other sources of GAAP such as IFRS without due consideration of the substance of these types of arrangements. Accounting for these circumstances is very judgmental and, as PSAB noted, could be problematic which could ultimately lead to reduced comparability, understandability and accountability over time. Therefore, we would strongly encourage PSAB to add more guidance and remove the noted inconsistencies in order to fill this gap in current standards.

Retroactive application of accounting changes (paragraph .151)

Paragraph .151 specifically mentions PS 2120, *Accounting changes* which includes guidance on when retroactive application for each component of net assets or net liabilities applies. We note that there are also requirements for retroactive application in PS 2125.02 for first time adoption and PS 2510.51 for a change in status of a government unit to a government business enterprise. For completeness, we think that PSAB should consider broadening this section and mentioning all instances where retroactive application might be required.

Statement of cash flow (paragraph .154-.185)

While we agree with the proposals put forth in this ED, we have identified some further areas of improvement that could be made to the standard related to the SCF as follows:

- PS 1202 introduces the concept of restricted assets such as those held in an endowment or those with temporary restrictions. Restricted cash and cash equivalents are common in the federal portfolio and we currently see mixed practice in how restricted cash and cash equivalents are treated in the SCF. Some entities reconcile to all cash and cash equivalents, including restricted cash and cash equivalents, whereas others present changes in restricted cash and cash equivalents as an investing activity. In our view, presenting such items as investing activities appears somewhat counterintuitive as increases in restricted cash or cash equivalents are presented as cash outflows and vice versa. We think that the current reporting model project represents an opportunity to consider how restricted cash and cash equivalents should be presented in the SCF;
- As mentioned in our comment under share capital above, we note that PS 1202.175 which describes cash flow information related to financing makes no mention of changes in capital contributions (i.e. share capital) unlike IPSAS 2. Given the new section on share capital, we believe PSAB should add further guidance on its impact on the SCF;
- We note that the illustrative examples provided in the appendices include contributions from a third party and endowment contributions as a financing transaction, yet the definition of financing activities does not appear to include contributions but rather only debt. While this presentation is consistent with PS 4200.52, the definition of financing activities in that standard is different than the current definition in PS 1202.175. Although illustrative examples are only illustrative in nature, we think a footnote should be added to this line item in the illustrative examples, similar to the footnote added in the statement of financial position, so that it is clear that this is one possible presentation option and does not presuppose that in the future this is how endowment contributions or contributions from third parties would always be presented in the SCF, unless PSAB changes the current proposal on what constitutes a financing activity;
- PS 1202.165 is a new paragraph which states that “information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.” We believe this statement is primarily relevant in the scenario where an entity chooses to use the direct method and thus we think that PSAB should consider clarifying this paragraph.
- The impact of foreign currency on cash flows is not currently addressed in PS 1201 although it is explicitly addressed in IAS 7.28, IPSAS 2.39, and paragraph 30 of section 1540 of Part II of the Handbook. We think that PSAB should consider addressing the impact of unrealized gains and losses arising from changes in foreign currency exchange rates; and
- Now that PS 3160, *Public private partnerships* (PPP) has been issued, we think PSAS should add guidance on SCF presentation for these arrangements since we have seen different judgments in practice regarding how payments made by a public sector entity to a private sector partner are presented in the SCF. We have observed two main perspectives outlined below:
 - Since the underlying asset being acquired through the PPP arrangement is a tangible capital asset, the payments to the public private partner should be presented within investing activities (similar to if the public sector entity had simply bought an asset directly); or

- Since the payments made by the public sector entity are applied to reduce the PPP liability balance, the payments to the public private partner should be presented within financing activities (in much the same way as lease payments made in regards to a capital lease are presented).

By adding such guidance to this standard we believe that users would benefit from enhanced consistency, understandability and comparability.

Comparing actual financial performance to that budgeted (paragraph .186-.195)

Paragraph .194 discusses situations for which there are differences between the actual and budget information related to the basis of accounting, accounting principles, scope or classification. In these circumstances, this paragraph requires budgeted amounts to be restated. Footnote 31 explains that the scope of a budget would be different than the scope of the financial statements (emphasis added) “if a material entity or program is not included in the reporting entity’s approved budget.”

We are concerned with the underlined wording as it introduces the principle that a budget can be restated if a new program is introduced that was not included in the original approved budget. This principle is not consistent with current standards or practice whereby the introduction of new programs or funding does not result in the use of an amended or restated budget, but instead triggers disclosure of variances, where material. The principle in this footnote is also inconsistent with other paragraphs in this ED which limit scope differences to situations where all components or all controlled entities are not the same. We note the following paragraphs in this ED:

- .193 (c) which specifies that same scope of activities means “includes all components, where applicable, and all controlled entities”;
- BC.151 which states that a difference in the scope of activities means “not all controlled entities are included in the approved consolidated budget”;
- BC.153 which states that “scope adjustments would be the approved budgets of those controlled entities that were not included in the approved consolidated budget for the reporting entity.”
- BC.155 which states that the intent of the proposal is to “encourage entities to budget for the full scope of their activities, including those of their components and controlled organizations”;
- BC.159 which implies that for the introduction of new programs, “users’ best interests are served by explaining the variance...rather than presenting an amended budget”.

The above paragraphs seem to contradict what is included in footnote 31 which expands the definition of a change in scope to also include programs that were not included in the original budget. New program announcements are commonplace and in our view should not result in the use of either an amended or restated budget as accountability is best served by enhancing disclosures to explain the significant variances in the financial statements and/or elsewhere that arise when a new program is not contemplated in the original budget. Therefore, we think that PSAB should amend the footnote to remove the reference to programs in the context of a scope difference.

When a budget is not prepared or approved (paragraph .196-.197)

We think that PSAB should explicitly state that the circumstances for which no budgets are prepared or approved are expected to be rare. We also think there is an opportunity for PSAB to clarify its intent with respect to PS 1202.196 which states that (emphasis added) “*when budget information is not prepared or approved...*” We think this paragraph is meant to address circumstances where there is no budget or other information prepared for which the entity is being held accountable. We think this is supported by PS 1202.190 which explains that the original budget is the one for which the entity is held accountable. In our view, in the rare circumstance where a public sector entity does not have a formal budget in a given year, but has other types of financial figure approvals which apply the same rigour as a formal budget and for which the entity is held accountable, we think it would be preferable to present this information along

with disclosure that explains why a “budget” was not prepared as opposed to presenting no figures. We think that accountability would still be met in these circumstances and that this approach aligns with the spirit of PS 1202.BC.153 which states “The Board is of the strong opinion that it is in the public interest to have an actual-to-budget comparison on the statement of operations for accountability purposes, whenever possible”. Therefore, we think that PSAB should consider whether the guidance should be clarified to allow for such a situation.

Use of an amended budget (paragraph .198-201)

We are supportive of the proposals in this ED with respect to amended budgets, provided they are restrictive enough to discourage behaviour that would diminish accountability.

As an example, we note that elections or changes in the governing bodies of government organizations can happen at any time during a fiscal year. It seems therefore that an amended budget could theoretically arise just before the end of a fiscal year and we question whether an amended budget would be appropriate in those circumstances. On that basis, we think that PSAB should consider whether the circumstances provided for amended budgets should be further narrowed in order to prevent an amended budget from being used too late in a fiscal year as we think that accountability information would be significantly diminished in those circumstances.

Disclosing non-compliance with financial authorities (paragraph .202-204)

We note that PSAB has replaced “legislative authorities” with “financial authorities”. As noted in our response to PSAB’s ED: The Conceptual Framework for Financial Reporting in the Public Sector, we understand that the intent of this change is consistent with the intent in the existing conceptual framework (PS 1100.61) and the existing financial statement presentation standard, although existing requirements do not specifically refer to financial authorities.

While it is logical to focus on financial authorities, this may unintentionally ignore other non-compliance with authorities that may also be material to the financial statements such as when an entity operates outside of its mandate or when an entity does not comply with certain directives provided. Given the requirements in AuG-49, Reporting on Compliance with Specified Authorities for Transactions Coming to the Auditor’s Notice During the Audit of Financial Statements, we think that using the term “financial” authorities may unduly restrict disclosure in other significant areas.

On that basis, we think it would be helpful to provide specific examples and/or expand the explanation in the Basis for conclusions to clarify that disclosure should be made for any non-compliances with authorities that have a significant/material impact on the financial statements and should provide any necessary information an informed reader would expect to find in the financial statements regarding non-compliance with authorities.

Disclosing risks and uncertainties (paragraph .205-206)

While we support the proposals, we are concerned with the principle in paragraph .205 of this ED which could be interpreted to encourage financial statement disclosure about the risks and uncertainties that could affect an entity’s financial position outside of what might be required in individual standards.

By including such a broad principle outside the proposed conceptual framework, there is a risk that PSAB’s intention that this would not lead to disclosures of risks and uncertainties that are better suited for disclosure outside the financial statements, may be undermined. Since the scope of PS 1202.002 indicates (*emphasis added*) that “*other standards set out the...presentation requirements for specific items, transaction and other events*”, we encourage PSAB to reconsider whether this principle needs to be retained in this proposed standard. Alternatively, the intent of this principle could potentially be improved by moving the second sentence of paragraph .206 (i.e. “Individual standards set out the disclosure requirements for various risks and uncertainties.”) to the end of paragraph .205 or by adding

something to the Basis for conclusions which currently does not include a discussion of feedback received in relation to this principle. This would make it clearer that the principle is not meant to lead to disclosures outside of what is already required in other standards.

Other comments

- While the definition of financial assets has not changed, we noted that PS 1202.046(c)&(d) refers to “contractual rights” as financial assets whereas PS 1202.043 also refers to contractual rights which are not recognized in the financial statements but disclosed in accordance with PS 3380, *Contractual rights*. We find that the concept of contractual rights in relation to both recognized and unrecognized financial assets is somewhat confusing. We think that PSAB should consider using different terminology so as not to confuse the two concepts. One such consideration could be using recognized or unrecognized contractual rights terminology.
- PS 1202.087 discusses how performance obligations would be classified based on whether the obligation “will be primarily settled with financial assets” or not. We would encourage PSAB to provide guidance on what is meant by “primarily” as this may have a significant impact on the categorization of net financial liabilities.
- PS 1202.095 discusses the three main components of net assets or net liabilities, without also mentioning the additional component introduced in paragraph .147 related to share capital. We think that paragraph .095 should include this component for consistency with the requirements in the proposed standard.
- PS 1202.098 (emphasis added) allows disclosure of a more detailed breakdown of net asset or net liability components in the notes, “if it provides understandable and useful accountability information”. Adding such a qualifier to this paragraph suggests that PSAB may be trying to discourage entities from providing a more detailed breakdown outside of the statement of financial position. We think that PSAB should consider removing the underlined section of this paragraph and instead provide guidance on what is meant by this qualifier.

Importance of Notes and Schedules (paragraph .207-.212)

We note a potential inconsistency with respect to paragraph .209 which requires consideration be given to understandability of the financial statements when determining the systematic manner in which notes are presented. This new paragraph could be viewed to be somewhat inconsistent with the requirement in PS 2100.11 which requires all significant accounting policies be disclosed in one place.

We have historically interpreted PS 2100.11 to require that all accounting policies must be disclosed in one note whereas many entities reporting under other frameworks such as IFRS have redesigned their notes in recent years in response to improved communication of information in financial statements. We also noted that this same approach (i.e. not requiring that all significant accounting policies be disclosed in one note) is used by some of the IFRS entities in our portfolio that have reorganized their notes such that disclosures required for specific items are combined with their related accounting policies which helps to reduce duplication, enhance linkage between items, and improve understandability.

While PSAB has proposed a consequential amendment to PS 2100, *Disclosure of accounting policies* in the ED: Consequential Amendments Arising from the Proposed Conceptual Framework which adds paragraph .12 regarding the use of technology which may allow significant accounting policies to be disclosed with their relevant notes, the requirement that all accounting policies be disclosed in one note has been retained. Given that the intent of PSAB’s proposal (emphasis added) is to “improve understandability and provide financial statement users with better information for accountability purposes” (from the Effects for financial statement users section of the ED), we think this is an opportunity for PSAB to also clarify whether the intent of PS 2100.11 is still to require that all accounting policies be disclosed in one note or whether increased understandability might be achieved using other methods, such as those seen in other frameworks in recent years.

Appendices (A-F): Illustrative Financial Statements

We are pleased to see that PSAB has created illustrative financial statements for a broader range of public sector entities. We think this will be helpful in seeing how the new requirements might be applied to different types of public sector entities. We have a large number of other government organizations that do not fall within health-related or colleges and/or universities and thus we think it would also be helpful to include an illustrative financial statement for other government organizations, apart from governments and those in specific subsectors. This would also give PSAB the opportunity to reflect share capital in an illustrative example as share capital is more likely to arise in other government organizations.

In the table below, we have summarized the improvements that could be made to the illustrative examples that are discussed in the above sections of this response as follows:

Item identified	Section Discussed	Impacted Appendices
Share capital	Share capital (paragraph .146-.150)	Could be included in an Appendix for other government organizations
Contributions from third parties or endowment contributions	Statement of cash flow (paragraph .154-.185)	Appendix A, B, D, E
Unearned revenue	Financial and non-financial liabilities (paragraphs .073-.091)	Appendix A, C, D, E

Question 2

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

OAG response:

We agree with the effective date of April 1, 2024 to implement the financial statement presentation standard since it is a presentation standard with no impact on recognition or measurement as we think this should provide sufficient time from an audit perspective. However, we have concerns from a preparer perspective. We understand that typically entities need between 18-24 months which also allows sufficient time to ensure that budgets are aligned with the new presentation and while the proposed effective date should be sufficient, given all the upcoming changes as explained below, PSAB may want to consider delaying the effective date of PS 1202.

For example, there are a number of standards coming into effect in 2022, such as PS 3280, *Asset retirement obligations*, PS 3450, *Financial instruments*, PS 1201, *Financial statement presentation*, PS 2601, *Foreign currency translation*, PS 3041, *Portfolio investments*, as well as in 2023 such as PS 3400, *Revenue*, and PS 3160, *Public private partnerships*. On that basis, PSAB may want to delay the effective date of PS 1202 to allow preparers additional time in light of the volume of standards coming into effect over the next few years.

We also note a potential issue with respect to governments that have not yet adopted PS 1201 or PS 3450. With an effective date for those standards of fiscal years beginning on or after April 1, 2022, this means that governments would need to change their presentation to adopt PS 1201 only to change presentation again 2 years later to adopt PS 1202. We question whether this approach gives governments sufficient time to prepare for all the upcoming changes.

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

June 23, 2021

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Manager of Accounting for the City of Brantford, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities
2. Amend paragraph 2.69 to expand the definition of longevity as a characteristic of public sector entities to provide more detail on what the term encompasses
3. Amend the definition of unique governance structure in paragraph 2.37 to make reference to public sector entities' unique interdependency on other levels of government to fulfill their obligation to serve the public
4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions
5. Amend paragraph 2.19(C) to remove the word "generally" from the description of taxation
6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be

deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements

7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
8. Amend paragraph 3.20 so labour force only includes recognition of value based on current usage and payment for services
9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources
10. Amend paragraphs 7.08-7.11 to maintain the term “reliability” instead of “faithful representation”
11. The terms “economic resources” and “economic obligations” are not as intuitive as the terms “assets” and “liabilities” for users of financial statements. More clarity should be provided in the definitions under the Glossary
12. Amend paragraphs 9.37-9.40 to provide clarification on the concept of Going Concern to add the potential for public sector entities to end through sale, amalgamation, etc.
13. Replace “accumulated surplus or deficit” with “accumulated results of operations” in PS 1202 in order to reduce inherent biases by users of financial statements
14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed. Should you wish to follow up on this letter, please contact Wanda Harding at wharding@brantford.ca.

Sincerely,



Manager of Accounting

cc. Donna Herridge, Municipal Finance Officers' Association of Ontario (donna@mfoa.on.ca)

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

June 22, 2021

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Treasurer of the Village of Westport, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities
2. Amend paragraph 2.69 to expand the definition of longevity as a characteristic of public sector entities to provide more detail on what the term encompasses
3. Amend the definition of unique governance structure in paragraph 2.37 to make reference to public sector entities' unique interdependency on other levels of government to fulfill their obligation to serve the public
4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions
5. Amend paragraph 2.19(C) to remove the word "generally" from the description of taxation
6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be

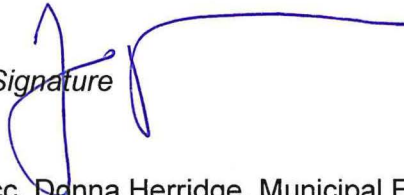
*m.puskaric@psab
Canada.ca*

- deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements
7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
 8. Amend paragraph 3.20 so labour force only includes recognition of value based on current usage and payment for services
 9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources
 10. Amend paragraphs 7.08-7.11 to maintain the term "reliability" instead of "faithful representation"
 11. The terms "economic resources" and "economic obligations" are not as intuitive as the terms "assets" and "liabilities" for users of financial statements. More clarity should be provided in the definitions under the Glossary
 12. Amend paragraphs 9.37-9.40 to provide clarification on the concept of Going Concern to add the potential for public sector entities to end through sale, amalgamation, etc.
 13. Replace "accumulated surplus or deficit" with "accumulated results of operations" in PS 1202 in order to reduce inherent biases by users of financial statements
 14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed. Should you wish to follow up on this letter, please contact Joe Whyte (jwhyte@villageofwestport.ca).

Sincerely,

Signature

A handwritten signature in blue ink, consisting of a stylized 'D' followed by a horizontal line that curves upwards and then back down.

cc. Donna Herridge, Municipal Finance Officers' Association of Ontario (donna@mfoa.on.ca)

June 24, 2021

Michael Puskaric, Director
Public Sector Accounting Board (PSAB)
277 Wellington St. West
Toronto ON M5V 3H2

RE: Conceptual Framework and Reporting Model Exposure Drafts

Dear Michael:

We are pleased to submit our views on PSAB's Exposure Drafts for a revised Conceptual Framework and Reporting Model.

Overall, we support the proposals set out in PSAB's exposure drafts. However, there are specific issues we would like the Board to consider before finalizing, set out in the Appendices attached to this letter.

We thank the Board for the opportunity to comment.

Sincerely,

Welch LLP



Umar Saeed, MAcc, CPA, CA
Partner

Welch LLP - Chartered Professional Accountants
1070 - 36 Toronto Street, Toronto, Ontario, M5C 2C5
T: 647-288-9200 ext: 412, F: 647-288-7600

cc: Clyde Maclellan, Chair, PSAB
Chris Meyers, Partner, Welch
Shawn Kelso, Partner & Director of Professional Standards, Welch

APPENDIX A

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

Yes.

Please consider the following issues before finalizing:

1. Consider how public sector financial reports may be aggregated for statistical purposes (national or subnational)

Government financial reports prepared on an IPSAS basis are used by the EU, Eurostat, IMF, World Bank, OECD, etc. to gather economic statistics. While entity-level accountability remains important, an additional objective of financial reporting that the IPSASB considers is this notion that on aggregate, the accounts of a nation should make sense too.

This additional objective may help inform decisions PSAB must make about symmetry of standards. Clarifying PSAB's view toward this objective will help resolve future decisions PSAB will face when it revisits contentious standards such as government transfers and leases, and may also help improve consistency in application of existing standards where control of assets or entities are being considered (3Ps).

The idea that, on aggregate, we should strive not to double-count assets and obligations is simple and intuitive to the public. When we view each accounting issue with the sole focus on the entity-level statements, we risk too many case-by-case exceptions leading to unnecessary inconsistency in the application of PSAS standards.

While we do not believe symmetry should drive financial reporting principles, we do believe it is a practical "tie-breaker" when trying to develop recognition criteria relating to complex transactions. When we say our financial reports is for the public and its legislature, we should consider how intuitive it is for the average person to grasp the concept that one entity has a payable and the does not have a receivable, or that the same asset has been recorded in two different sets of books.

2. Consider adding stewardship to risks and uncertainties under objective 6

We believe that by adding stewardship to objective 6, it enables PSAB to address the many non-financial issues tied to public sector stewardship.

For example, accounting for natural capital will be a standards-level project that PSAB hopes to address in the future. The revised conceptual framework should provide the tools for PSAB to deal with this in the future. We believe the best tool available to deal with many issues related to natural capital assets, natural capital stock (depletion), and non-financial sustainability issues and risks will be note disclosures in the financial statements (please see Appendix B for further details on how this may be achieved).

However, with PSAB's primary financial reporting objective being accountability – the Board should maintain a broader view toward how note disclosures might enhance accountability and stewardship where specific transactions will not meet recognition criteria.

For example, GASB 77 Tax Abatement Disclosures requires cities and state governments in the United States to disclose tax abatement arrangements with private companies, including the estimated revenues foregone because of the arrangement. Governments often provide tax incentives to entice companies to operate out of their specific jurisdiction. However, these deals result in a reduction of future revenues for years to come. The GASB disclosure

provides timely accountability so that the government making the decision is transparent about foregone future tax revenues.

3. Can a liability be a provision?

A provision is defined as a liability with uncertain timing or amount. PSAB proposes that a liability meet three essential characteristics, one of which [8.19(b)] requires the future transfer or use of economic resources “...at a specified or determinable date.”

We already record provisions under the PSAS framework. Employee future benefits, contaminated site liabilities, asset retirement obligations are all examples where specific obligations do not have payment dates that are known at the time of accrual. However, we note that if a liability requires a specific or determinable date to be relieved, many liabilities may not meet this recognition criteria and therefore could go unrecorded.

We believe PSAB may want to revisit its liability definition given the IPSAS has a standard on provisions, PSAB effectively requires certain liabilities to be recorded as provisions, and there may be future standards or amendments that the Board would like to accommodate to permit the recognition of liabilities with uncertain timing.

4. Role of confirmatory and predictive value contradicts accountability objective

We agree with the overarching underlying principle of accountability as the objective of public sector financial reports. However, the discussion on relevance, and in particular, confirmatory and predictive value, would appear to apply to private sector firms – not public sector entities.

Please reconsider how financial reports provide value to the users of financial statements in the public sector. We would expect the information value created from public sector reporting would be centred around timely accountability over government decision-making, stewardship over publicly entrusted resources, and transparency surrounding material financial decisions and transactions.

APPENDIX B

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

Yes.

Please consider the following issues before finalizing:

PSAB is unnecessarily prohibiting the recognition of intangible assets

Paragraph .070 - .072 prohibit the recognition of intangible assets, other than *purchased* intangible assets. We have read the basis for conclusions and we ask that PSAB reconsider its position in light of the following recent events:

1. Permitted recognition of purchased intangibles
2. Emerging trends in accounting
3. Public sector stewardship over natural capital

1. Permitted recognition of purchased intangibles

Purchased intangible assets come in many forms (licenses, rights, patents, etc.). PSAB permitted the recognition of purchased intangibles to address a reporting and compliance issue among indigenous government financial reports. Due to the prohibition, purchased licenses (like fishing licenses) were treated as expenses instead of assets. As these assets were absent from the balance sheet, it created the impression of poor financial condition. There were compliance consequences because of this prohibition.

PSAB's logic was to permit the recognition of an intangible asset, where it met the criteria of an asset. We believe this logic may be extended to all types of intangible assets.

We recognize the history behind the prohibition. There may be sovereign governments that want to recognize intangible assets such as the infinite capacity to tax or the value of crown lands, water, and minerals, as the value of these assets would more than offset the existing government debt and future tax burden. The mere act of recognizing such assets could wipe out annual deficits through accounting gains. We recognize this is a risk for PSAB in setting standards, however, we believe other standard setters globally have navigated this risk without broadly prohibiting the recognition of intangible assets.

2. Emerging trends in accounting

Private sector accounting standards have recognized a problem with financial reporting: economic value is created by intangible investments (IT infrastructure, Intellectual Property, Human Capital, etc.). Accounting rules treat these costs as period expenses, and as a result, this approach systematically fails to recognize one of the most significant assets to a modern business.

PSAB should consider existing guidance under IPSAS on intangible assets and heritage assets, which are recognized under certain conditions. IPSAS also has an active project on natural capital assets. Looking to the future, it seems evident that tracking of cost information on intangible investments (even where criteria for capitalization are not met) will likely be relevant information to be reported on.

PSAB should reconsider these prohibitions on how it might conflict with emerging and future trends in financial reporting globally.

3. *Public sector stewardship over natural assets*

We believe PSAB should reconsider its prohibition on recognizing natural capital assets, as there is an intermediate step toward achieving accountability and stewardship over natural capital. This involves permitting recognition of these assets but requiring them to be valued at nominal values where there is no historical cost.

Governments are stewards of Canada's vast natural resources (ie. Forests, water, minerals). We have noted the progressive interest PSAB takes in hearing about these issues and trying to determine how to achieve the accountability objective in a manner that fits the financial reporting framework. The Board's pursuit of this goal is in line with its mandate.

However, the problem of recognizing natural capital assets present many challenges – the largest one being valuation. What value should we record natural resources that a government has acquired them with no historical cost?

- Should we value our forests, fresh water, minerals in the ground at their prevailing market rate as commodities? Or at their economic values in use?
- Should we value them at their ecological value to the environment and to the earth? In other words, if these assets were gone, what additional costs would we incur to reproduce their ecological benefits?
- Should we value them at their habitable value to the neighboring communities? Are these natural assets, in substance, heritage assets?

There are sound mathematical models and approaches to measure these various values. Obtaining the values is not an issue. However, the accounting challenge remains the same:

- There is no historical transaction price;
- There is no consensus on the best valuation approach.

We believe that the intermediate step toward achieving accountability over the stewardship of natural assets is to completely separate recognition from measurement. The objective of recognizing natural assets, even at a nominal value, will prove to have immediate and practical benefits because it will enable PSAB to provide relevant guidance on natural capital without the need for a measurement guidance. For example:

- Recognizing natural assets at zero enables you to record improvements to natural assets as capitalized costs, as opposed to costs that are expensed because there is no asset to ascribe them to. The Town of Gibson's illustrated this concept by investing in nature to address storm water drainage. Rather than to create a physical, concrete facility (the costs of which would be represented a new tangible capital asset), it invested in re-landscaping to create natural drainage for storm water to the surrounding areas (all costs expensed, because it was an betterment to a natural asset, which is prohibited from recognition).
- Investments into creating man made forests and parks, such as urban forests, could be considered natural assets if there was no prohibition. Again, if a city invested in a concrete facility that captured carbon from the air – there is no accounting issue. The costs of such an investment are recognized as an asset. How is the creation of an urban forest or park any different?
- Finally, recognizing natural assets (at nil cost) is the first step toward broader accountability disclosures over natural capital. While there are philosophical differences in determining the appropriate measurement base to value natural assets, there is no debate that Canada has a finite stock of natural capital and that stock is depleting. Disclosure standards tracking the estimated total stock and annual depletion of forests, mineral, fresh water reserves is immediate accountability over natural capital. Such a disclosure is not only achievable, but also powerful, as over time it enables the public to understand the rate of depletion for natural capital stock significant to that jurisdiction.

These three examples simply illustrate how it is possible to achieve accountability over natural capital (existing and future investments made) without having a valuation framework in place. However, they do require PSAB to permit recognition of natural capital assets at nominal values.



June 24, 2021

By email: info@psabcanada.ca

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

From: The City of Calgary

Re: PSAB Exposure Draft – Financial Statement Presentation

Purpose:

The purpose of this memo is to provide to the Public Sector Accounting Board (PSAB) the City of Calgary's ("The City" or "City") commentary and input on the proposed accounting standards – PS 1202 Financial Statement Presentation Exposure Draft issued January 2021.

All references made to the standard are in red.

Responses to Questions:

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

City Response:

The City is in agreement with the proposed new financial statement presentation standard except section "Comparing actual financial performance to the budgeted" – Paragraph .186-.201 (the "Section"). The City finds there are specific points in the Section which could use further clarifications. Our comments are below:

- a) Section .186 - The City is in agreement with presenting a comparison of actual to original budgeted amounts on the Statement of Operation, and would appreciate receiving further guidance on what an "originally" approved budget is and the approval process, such as timing, oversight, and governance, particularly in a multi-year budgeting environment This is with context to The City's process of approving a four year budget plan with annual budget revisions that are formally approved by Council in November for each successive year.
- b) Section .193 - Clarification is required on whether this section is limited to the Statement of Operations or extend to note disclosures such as budget to actual comparison requirements for expenses by object.
- c) Section .195 - This section does not appear to be consistent with Section .187. If the original approved budget for a new controlled entity is not included, it would not be a good comparison for budget to actual. Therefore, it would be helpful to interpret what scope change(s) should be considered during the accounting period. The City has concerns over using an original approved budget when it has a new controlled entity and the new entity has its own approved budget. Clarification is required on reporting entity scope changes, such as a new controlled entity. The City is proposing consolidating the budget of a new controlled entity as part of the Statement of Operations if a new controlled entity is material.

Responses to Questions (continued):

Original: Section .195 (New) When the scope of the reporting entity changes during the accounting period, the original approved budget would be presented on the statement of operations.

Recommendation: Section .195 When the scope of the reporting entity changes during the accounting period, the original approved budget would be presented on the statement of operations. *The original approved budget includes the approved budget of a new controlled entity, if material in nature.*

- d) Section .197 – The City is in agreement that the reporting entity is not considered to have an approved budget for the consolidated reporting entity if it does not have an approved budget for a controlled entity and the controlled entity is material. The City believes further guidance is warranted on:
- i) distinguishing the line between when to disclose and when not to disclose, for example, when a reporting entity does not have approved budget for several immaterial controlled entities but material in the aggregate, and
 - ii) whether a controlled entity needs to have its budget approved by its own Board of Directors?

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

City Response:

PSAB is proposing this Section applies for fiscal years beginning on or after April 1, 2024. The original effective date for The City would be fiscal year 2025.

The City is proposing the effective date of fiscal years beginning on or after April 1, 2027 (this Section would become effective for The City in fiscal year 2028). The City is making this request due to the pandemic and considerable standards to be implemented in the coming years, such as Financial Instruments, Asset Retirement Obligations, and Revenue. Further discussion is needed in regards to items such as amortization, accretion, etc. for budget presentation on the Statement of Operations. There will be challenges in providing appropriate understanding of the accrual basis of amortization, accretion, etc. Perhaps further requirements to discuss compliance or “balanced budgeting” under provincial requirements, such as Municipal Government Act, Section 243, versus what is in the financial statements, requires further disclosure so that readers of the financial statements can have comfort that the budget is balanced, and the main differences pertaining to “budgeted amortization, accretion, etc.” is for accounting purposes only.

Conclusion:

Our responses to your questions take into consideration The City stakeholders and ultimately the users of the annual consolidated financial statements of The City and their needs. The City strives to continue developing a high degree of public knowledge and trust, and delivering value for our citizens.

Thank you for your consideration of our responses. If you have any further questions, please contact me at (403) 268-1734.

Sincerely,

Nicole Hiscock, CPA, CA
Financial Reporting Officer
The City of Calgary
Nicole.Hiscock@calgary.ca
(403) 268-1734



Respondent No: 1
Login: jsilvestre
Email: jsilvestre@surrey.ca

Responded At: Jun 27, 2021 19:18:13 pm
Last Seen: Jun 27, 2021 22:26:00 pm
IP Address: 97.107.191.71

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

	Question	Response
Financial Statement Presentation, Proposed Section PS 1202 (January 2021)		
1	Do you agree with the proposed new financial statement presentation standard?	<p>We are generally in agreement other than the following:</p> <p>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.</p> <p>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).</p> <p>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.</p> <p>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).</p> <p>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</p>

	Question	Response
		<p>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.</p> <p>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).</p> <p>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).</p>
	<p>Do you agree with the effective date of April 1, 2024, to implement the financial statement presentation standard, Section PS 1202?</p>	<p>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.</p> <p>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.</p>
	<p>Other comments:</p>	<p>We have identified the following potential area of improvement:</p> <p><u>Comparative Information .034 - .036</u>: 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).</p>

	Question	Response
		<p><u>Share capital .146-.150</u>: 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.</p> <p><u>Budgets</u>: 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).</p>
<i>Consequential Amendments Arising from the Proposed Conceptual Framework (January 2021)</i>		
	Other comments	<p>We have identified the following potential area of improvement:</p> <p>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:</p> <ul style="list-style-type: none"> • 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.



June 21, 2021

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

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer of the City of Vaughan, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities
2. Amend paragraph 2.69 to expand the definition of longevity as a characteristic of public sector entities to provide more detail on what the term encompasses
3. Amend the definition of unique governance structure in paragraph 2.37 to make reference to public sector entities' unique interdependency on other levels of government to fulfill their obligation to serve the public
4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions
5. Amend paragraph 2.19(C) to remove the word "generally" from the description of taxation

6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements
7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
8. Amend paragraph 3.20 so labour force only includes recognition of value based on current usage and payment for services
9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources
10. Amend paragraphs 7.08-7.11 to maintain the term “reliability” instead of “faithful representation”
11. The terms “economic resources” and “economic obligations” are not as intuitive as the terms “assets” and “liabilities” for users of financial statements. More clarity should be provided in the definitions under the Glossary
12. Amend paragraphs 9.37-9.40 to provide clarification on the concept of Going Concern to add the potential for public sector entities to end through sale, amalgamation, etc.
13. Replace “accumulated surplus or deficit” with “accumulated results of operations” in PS 1202 in order to reduce inherent biases by users of financial statements
14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed. Should you wish to follow up on this letter, please contact Nancy Yates, Controller.

Sincerely,



Michael Coroneos CPA
Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer

cc. Donna Herridge, Municipal Finance Officers' Association of Ontario (donna@mfoa.on.ca)

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

June 22, 2021

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Treasurer of the City of Thunder Bay, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities
2. Amend paragraph 2.69 to expand the definition of longevity as a characteristic of public sector entities to provide more detail on what the term encompasses
3. Amend the definition of unique governance structure in paragraph 2.37 to make reference to public sector entities' unique interdependency on other levels of government to fulfill their obligation to serve the public
4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions
5. Amend paragraph 2.19(C) to remove the word "generally" from the description of taxation
6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be

deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements

7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
8. Amend paragraph 3.20 so labour force only includes recognition of value based on current usage and payment for services
9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources
10. Amend paragraphs 7.08-7.11 to maintain the term “reliability” instead of “faithful representation”
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12. Amend paragraphs 9.37-9.40 to provide clarification on the concept of Going Concern to add the potential for public sector entities to end through sale, amalgamation, etc.
13. Replace “accumulated surplus or deficit” with “accumulated results of operations” in PS 1202 in order to reduce inherent biases by users of financial statements
14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed. Should you wish to follow up on this letter, please contact Trish Malmberg at Trish.Malmberg@thunderbay.ca

Sincerely,



cc. Donna Herridge, Municipal Finance Officers' Association of Ontario (donna@mfoa.on.ca)

Antonella Risi

From: Peter Weltman <PWeltman@fao-on.org>
Sent: Friday, June 25, 2021 2:56 PM
To: Antonella Risi
Subject: FAO Response to PSAB PS1202
Attachments: image007.png; image006.png

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Hi Antonella,

I've had a chance to review the documents (and even the video), and we've had some discussions internally as well. I did not discuss this with Yves Giroux.

We aren't heavy users of audited financial statements- most of our work relies on assessing government's fiscal projections and economic forecasts, or interim/unaudited quarterly descriptions of program expenses.

That being said, we are strongly supportive of the changes being proposed in PS1202:

- Net debt is always an interesting discussion, and we welcome any opportunity for further clarity. In public policy, there needs to be a distinction between debt undertaken for investments that will benefit future generations (and future taxpayers), against those that benefit the current generation.
- We agree that separating liabilities into financial and non-financial does better describe the character of public (vs private) sector finance
- While I think that requiring the financial statement to include an approved budget amount on the same accounting basis as the final amounts is noble, our frustration has always been the ability to obtain a reasonable time-series of data for any particular government spending program. These programs undergo name changes regularly, especially upon the election of a new government (which is the exemption the standard gives for allowing exceptions to this rule). Bottom line- while this might work for a year or two in the middle of a government's mandate, I foresee exceptions being the rule at the higher orders of government, maybe not as much at the municipal/local level.

Thanks for allowing us to review and provide some input. While I'm not sure we have much to add, I think we learned a lot on our side by being included in the process.

Best- Peter

[Peter Weltman](#)

Financial Accountability Officer / Directeur de la responsabilité financière
416.475.9227 | pweltman@fao-on.org

Antonella Risi

From: Hillan, Luke (MOF) <Luke.Hillan@ontario.ca>
Sent: Tuesday, June 29, 2021 9:25 AM
To: Antonella Risi; Martha Jones Denning
Cc: Doherty, Elizabeth (MOF); Yu, Cameron (MOF); Kandeepan, Ken (OFA); Hudecki, Michael (MOF)
Subject: Feedback re: Financial Statements / Conceptual Framework

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Antonella and Martha,

Thank again for providing us with the opportunity to comment of PSAB proposed changes to financial statements and the conceptual framework. We also appreciate the accommodation you have provided us by extending the initial deadline for comments to the end of June as well as presenting at an inter-provincial information session a few weeks ago. While many of the concerns raised by the Office of the Budget and the Ontario Financing Authority were already raised in the inter-provincial session, wanted to close the loop and ensure we provided written feedback as well.

***PSAB Proposed Amendment:** Budget amounts on financial statements should be presented using the same basis of accounting, following the same accounting principles, for the same scope of activities, and using the same classifications as the actual amounts.*

Because the budget is the key accountability document flexibility should be retained in the financial statements to present actual amounts as compared to budget based on the presentation provided in the budget document. This is even more evident with the separate presentation of COVID-19 Time-Limited Funding in the expense outlook of the 2021 Ontario Budget.

PSAB Proposed Changes to Net Assets/Debt Calculation and Presentation in the Financial Statements

This increased level of detail would be a real challenge for budgeting where financial positions are not budgeted for directly. Currently net debt is budgeted for by taking accumulated surplus/deficit and adding back net investment in tangible capital assets. These changes will introduce significant challenges to the budget process in projecting the Net Financial Assets/Liabilities. In the absence of a projected Balance Sheet it would be impossible to project net debt on the basis of the new PSAB requirements for Public Accounts. As a result the net debt and related ratios such as net debt to GDP, net debt to revenue will not be comparable to the actual results in the Public Accounts leading to significant confusion on the part of investors, Rating Agencies and the

general public on the fiscal performance of the Province. Further, the removal of non-financial liabilities from the calculation such as deferred capital contributions is not appropriate as they still represent obligations of the Province. These complex changes would also need to be applied retroactively.

PSAB Proposed Change to Include Unrealized Gains/Losses in the Proposed Statement of Changes in Net Assets/Liabilities

The inclusion of unrealized gains and losses could give readers of the financial statements the impression that the government has more/less assets available to provide services or settle liabilities. These financial measures are better left for inclusion in the notes to the financial statements.

Furthermore, the creation of components of Net Assets/Liabilities such as “remeasurement gains/losses” and “accumulated other” and recording revenues and expenses to these components creates uncertainty regarding the fiscal impact of the Province. Since it is very challenging to forecast remeasurement gains/losses in the Annual Budget, this inclusion represents another source of potentially material variance with the Public Accounts.

Thank you again for the opportunity to provide comment. We look forward to working with PSAB to enhance transparency in government financial reporting. Please do not hesitate to contact me if I can be of further assistance.

Regards,

Luke Hillan

Director, Fiscal Policy

Ontario Ministry of Finance



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 "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 contrôlease des finances,

Lucie Pageau, CPA, CA

p. j. (1)

QUESTION DU CCSP - COMMENTAIRES DU CONTRÔLEUR DES FINANCES

1. Appuyez-vous le projet de nouvelle norme sur la présentation des états financiers?

Nous sommes généralement en accord avec les propositions de cet exposé-sondage. Nous souhaitons toutefois faire part au CCSP de certains points qui, à notre avis, doivent être modifiés ou clarifiés.

Nous voulons d'abord faire un commentaire général qui s'applique à l'ensemble du projet de chapitre SP 1202 PRÉSENTATION DES ÉTATS FINANCIERS (SP 1202). Nous sommes d'avis que l'utilisation des notes de bas de page pour apporter des précisions aux exigences du chapitre SP 1202 devrait être évitée. En effet, des précisions sur des éléments aussi importants que les passifs financiers et les passifs non financiers devraient être incluses dans une annexe au chapitre SP 1202 et non dans des notes de bas de page.

Les principaux commentaires ci-dessous sont présentés selon l'ordre des paragraphes du chapitre SP 1202.

Définitions

Concernant les définitions d'obligations de prestation financière et d'obligations de prestation non financières, nous croyons qu'elles devraient être davantage associées à la définition d'obligations de prestation qui se trouve dans le chapitre SP 3400 REVENUS. Nous proposons donc les modifications suivantes :

Obligation de prestation financière : promesse exécutoire de fournir des biens ou services précis à un payeur en particulier, au moyen d'actifs financiers, que ce soit directement ou indirectement. Cette obligation constitue un passif financier ~~consistant en une obligation de prestation dont le règlement est prévu de se faire au moyen d'actifs financiers.~~

Obligation de prestation non financière : promesse exécutoire de fournir des biens ou services précis à un payeur en particulier, ~~passif non financier consistant en une obligation de prestation qui ne peut être réglée au moyen d'actifs financiers, mais seulement~~ au moyen d'actifs non financiers ou de ressources économiques exclues de la comptabilisation selon le paragraphe SP 1202.071. Cette obligation constitue un passif non financier.

Regroupement

Le paragraphe .032 exige de fournir des informations sur la composition d'un poste qui est constitué de plusieurs éléments non significatifs ne présentant pas des caractéristiques semblables. À notre avis, cette exigence devrait être retirée.

En effet, des informations ne devraient pas être exigées sur des éléments non significatifs conformément aux indications du paragraphe .031 :

[Nouveau : remplace le paragraphe SP 1201.015] L'entité n'est pas tenue de présenter une information particulière imposée par une norme ou une note d'orientation si cette information est non significative. Cela s'applique même si la norme ou note d'orientation dresse une liste d'exigences précises ou indique un minimum à respecter.

Actifs non financiers

Dans le paragraphe .063, il est mentionné que les immobilisations corporelles comprennent des « biens en main que l'entité peut utiliser à court terme (par exemple, le matériel) ». Nous croyons que les termes « à court terme » constituent une erreur de traduction, puisque la version anglaise réfère à « near future ». De plus, le paragraphe .060 du chapitre SP 1201 duquel sont basées les indications du paragraphe .063 réfère à « proche avenir » et non à « à court terme ». Nous sommes donc d'avis que les termes « à court terme » devraient être remplacés par « proche avenir », ce qui est plus cohérent avec la nature des immobilisations corporelles. De plus, le terme « matériel » devrait être remplacé par le terme « équipement », ce qui reflète davantage la version anglaise.

Nous sommes d'accord avec l'inclusion des exceptions à la comptabilisation dans le projet de chapitre SP 1202. Nous souhaitons néanmoins qu'un projet concernant les ressources naturelles qui sont dévolues à l'État soit inclus prochainement dans le programme de travail du CCSP en raison notamment des enjeux liés au développement durable et aux changements climatiques.

État de l'actif financier net ou du passif financier net

Nous ne comprenons pas l'objectif visé par le CCSP avec cette obligation d'expliquer l'indicateur « actif financier net ou passif financier net » à la face même de l'état de l'actif financier net ou passif financier net.

Si cette obligation découle uniquement du fait de la révision de l'indicateur, cet ajout n'est pas justifié à notre avis. Les explications devraient être laissées à la discrétion de l'entité qui pourrait ajouter de l'information par voie de notes ou dans l'analyse des états financiers.

Si l'intention du CCSP est d'aider les utilisateurs à comprendre les états financiers, nous ne comprenons alors pas pourquoi cette obligation se retrouve uniquement à l'état de l'actif financier net ou passif financier net.

Revenus et charges

Le CCSP a mentionné avoir apporté des éclaircissements concernant l'indication des montants bruts des revenus et des charges dans le corps des états financiers, sauf disposition contraire d'une autre norme. Nous sommes d'avis que la présentation au net dans l'état des résultats et au brut par voie de notes devrait être permise lorsque cette présentation est jugée donner une meilleure information pour les utilisateurs.

À titre d'exemple, dans le cadre de sa gestion de la dette, le ministère des Finances maintient des liquidités dans le Fonds d'amortissement afférents à des emprunts du gouvernement, dans les équivalents de trésorerie et les placements temporaires. Ces liquidités sont investies dans des titres qui permettent la réalisation de revenus de placements. Ces revenus et les dépenses d'intérêts sur les dettes sont présentés au net à l'état des résultats et au brut par voie de note. À notre avis, cette présentation permet de bien refléter la gestion qui est faite par le ministère et ainsi donne une meilleure information pour les utilisateurs des états financiers.

Comparaison de la performance financière réelle avec celle prévue au budget

Le paragraphe .195 indique que, si le périmètre d'une entité comptable change pendant l'exercice, c'est le budget initial approuvé qui sera présenté dans les états financiers. Nous sommes d'avis que ce paragraphe devrait également préciser que l'entité doit fournir dans une note ou un tableau complémentaire des informations expliquant la mesure dans laquelle les événements de l'exercice ont modifié le périmètre de ses activités. Présentement, ces indications sont fournies dans le paragraphe .157 des bases des conclusions.

Autres commentaires

Les dispositions des paragraphes .053 et .080 visent spécifiquement des placements et des emprunts. À notre avis, ces dispositions devraient être déplacées dans les chapitres SP 3041 PLACEMENTS DE PORTEFEUILLE et SP 3230 DETTE À LONG TERME.

Au paragraphe .115, le nom « état de l'excédent ou du déficit » devrait être remplacé par « état des résultats ».

2. Êtes-vous d'accord pour que la date d'application de la norme sur la présentation des états financiers, c'est-à-dire le chapitre SP 1202, soit le 1^{er} avril 2024?

Compte tenu de tous les chapitres entrés en vigueur en 2022 et 2023 et de l'ampleur des changements proposés dans le chapitre SP 1202, nous sommes d'avis que la date d'application de ce chapitre devrait être, au minimum, 24 mois après son approbation par le CCSP.

Conceptual Framework

Do you agree with the concepts in the proposed Conceptual Framework? *(explain why or why not and include suggested alternative, supported by specific reasoning)*

Concept of Control (Chapter 5 – Foundation 2)

We agree with the inclusion of the concept of control in the conceptual framework. However, changes are required to avoid confusion and inconsistencies with other guidance in existing standards and within the proposed conceptual framework.

Our specific concerns include:

Paragraph 5.08

Foundation 2 states “Control is the basis for associating economic resources and other entities with a reporting entity.” We disagree with splitting control into two components; one related to economic resources, and one related to other entities.

The concept of control is required to define a reporting entity by drawing a line around an entity’s resources. We agree that the foundation for determining control is tied to economic resources. We maintain that economic resources are encompassed within entities since, inherently, controlled entities hold the economic resources of a government reporting entity. Therefore, the words “and other entities” are redundant and add confusion.

We recommend removing “and other entities” from the wording proposed in foundation 2 and throughout the proposed conceptual framework.

Paragraphs 5.11-5.23

We like the idea of explicitly defining what control is, as is done in paragraphs 5.11- 5.18. However, to be useful, the guidance should be more concise.

In paragraph 5.11 which defines the concept of control, we recommend a simplification to “control is the existing ability to direct the use of economic resources with the expected benefits and/or risk of loss accruing to the reporting entity.”

We disagree with including paragraph 5.12 in the conceptual framework. This paragraph refers to individual standards that provide specific guidance for the concept of control. First, the conceptual framework should stand on its own. Secondly, including unnecessary details that differ slightly from wording in standards will cause interpretation complexities and an inconsistent application of guidance.

We have provided specific comments related to paragraphs 5.15 - .18 in the terminology section of our response.

Additionally, related to paragraphs 5.14 - .15, we are concerned that the notion of a preponderance of evidence being required to conclude control exists is not incorporated in the proposed conceptual framework. PS 1300 outlines specified indicators that should be assessed and that the determination of control is not the result of meeting a specific number of indicators, but instead the preponderance of the evidence surrounding the relationship. We believe this concept should also be added to the proposed conceptual framework.

We note that the proposed conceptual framework introduces new examples/wording (i.e., paragraph 5.16 states control is more encompassing than ownership). We suggest that any new examples/wording related to this concept be introduced in PS 1300 and not at a conceptual level.

Paragraphs 5.19 – 5.20

These paragraphs define what control is not. We have the following concerns:

In paragraph 5.20, we believe that “reporting entity” should be replaced with “government” or “public sector entity” for consistency.

We recommend removing the second sentence in paragraph 5.20(b). We are concerned this sentence could be misinterpreted by a preparer to conclude that any entity receiving public funding should be included in the reporting entity. Additionally, the sentence is somewhat contradictory to both the sentence before it and PS 1300.24.

We have concerns with paragraphs 5.21 - .23. We understand that governments holding inherent rights and powers does not constitute control. However, the wording in these paragraphs (i.e., power needs to be invoked) is contradictory to the guidance in PS 1300.09, which acknowledges that a government may have control without exercising that power.

Incorporating our suggested changes for paragraph 5.20, paired with the removal of paragraphs 5.21 - .23, would make it clear that a government's inherent right/powers to influence and regulate does not, in and of itself, constitute control.

Reporting Financial Position (Chapter 6 – Objective 2)

1 - Removal of the net financial assets/liabilities indicator from the Statement of Financial Position

We strongly disagree with the proposal to move the net financial assets/liabilities indicator from the Statement of Financial Position to a new Statement of Net Financial Assets/Liabilities. We believe that so doing weakens, rather than strengthens, the prominence of this important indicator of financial position to the detriment of public sector reporting.

We understand that the proposal allows for the presentation of total assets and total liabilities on the statement of financial position, which would make public sector statements more consistent with private sector financial statements.

What may be gained in terms of understandability for some users would be overshadowed by the diminished visibility of the net financial assets/liabilities indicator. Governments have made

significant inroads in gaining understanding on the part of their financial statement users of the relevance and the importance of the net financial assets/liabilities indicator. We believe this proposal will be detrimental to the momentum that has been gained in this respect.

In our opinion, the exposure drafts do not provide adequate justification for the removal of the net financial assets/liabilities indicator from the Statement of Financial Position in favor of reporting total assets and total liabilities. If it is deemed to be important to include total assets and liabilities on the Statement of Financial Position, we contend that it would be possible to do that without removing the net assets/liabilities indicator.

Further, we believe that the calculation of the net assets/liabilities indicator could be modified to incorporate the proposed revised definitions of non-financial assets and non-financial liabilities without moving the measure from the Statement of Financial Position.

Please refer to our attached alternate presentation for an illustration on how this can be achieved.

Should PSAB not adopt this alternate presentation for all financial statements, we would request that flexibility be provided to financial statements preparers as to how and where net financial assets/liabilities are presented.

In fact, the proposed financial statement presentation does not preclude this presentation option as total assets and total liabilities are not required in PS1202.044, although each total is presented in the illustrative financial statements.

We agree that accountability, the overriding objective of financial reporting, is best achieved when financial information is understandable (paragraph 7.28 of the CF). We are concerned that the presentation of two indicators of financial position on two separate statements could create confusion and decrease understandability, and therefore accountability.

2 - Removal of the requirement for a statement of changes in net financial assets/liabilities

Additionally, the proposed PS 1202 guidance on reporting changes in financial position removes the notion of net financial assets/liabilities almost entirely. Since the net financial assets/liabilities indicator is, as noted above, acknowledged throughout the documents as an important measure of financial position, we disagree that the periodic change in the indicator has become less relevant.

The statement of change in net financial assets/liabilities provides an explanation of how the change in non-financial assets/liabilities impacted the public sector entity's continued revenue requirements and its ability to respond to service needs. It is the narrative of what caused these changes that is important in this statement. Providing public sector entities with a choice to report the change in net financial assets/liabilities reduces the likelihood that users will gain a full understanding of what transpired during the period.

An explanation of the meaning of the net financial assets/liabilities indicator is now required (proposed PS 1202.102) on the Statement of Net Financial Assets/Liabilities. This explanation is not an adequate replacement for the Statement of Changes in Net Financial Assets/Liabilities.

In addition, the requirement to explain the meaning of net financial assets/liabilities on the face of the statement is unusual, and in our opinion, misplaced. Professional judgement determines the

need for additional information on items presented in the financial statements, and if needed, the additional information should be provided by note disclosure.

We have concerns with the proposed terminology. We acknowledge that there are currently issues with the understanding of the current term “net financial assets/net debt”, and that a change is likely required. However, we find that the new terms “net financial assets/liabilities” and “net assets/liabilities” are too similar. This similarity creates possible misunderstanding of the different measures and confusion for users.

We propose that resources available and resources required replace the terms net financial assets and net financial liabilities.

Additional comments on the proposed conceptual framework

Chapter 1

Paragraph 1.09 states that PSAB may, if deemed necessary to meet financial reporting objectives, specify requirements that deviate from the conceptual framework. We find it odd that such a statement would be made in a conceptual framework considering that paragraph 1.05 states that a conceptual framework is the foundation on which standards are developed.

We suggest removing this paragraph. If it is determined that it will remain, we suggest qualifying the statement to note that this deviation would be rare.

Chapter 2

Paragraph 2.26 describes how governments issue debt. We question the relevance of this information to the conceptual framework as it is not a concept or foundation for preparing statements.

We suggest removing paragraph 2.26.

We wanted to acknowledge and express appreciation for the changes made in paragraph 2.31 since the documents were released for comment in 2018. We agree with the changes, specifically the emphasis on budget documents being policy documents.

We question the relevance of paragraph 2.68 which indicates that public sector entities are expected to be long-term entities. Therefore, we propose removing this paragraph.

Chapters 3 & 6

Chapters 3 and 6, and specifically paragraphs 3.24(c) and 6.32, include discussion on the need to report on non-compliance with financial authorities in the financial statements.

While this objective currently exists in the conceptual framework, we have concerns with its lack of alignment with the concept of materiality.

The proposed conceptual framework wording continues to imply that all instances of non-compliance with financial authorities need to be reported in the financial statements. However,

under the concept of materiality, if an event is not going to impact the decision making of a user, it is not required to be included in the financial statements.

We are also concerned that this type of reporting is included in the scope of the financial statements as it is really related to an entity's internal controls. Therefore, we suggest this objective be removed from financial statement reporting.

Should PSAB determine this objective should remain, we suggest the wording be modified so that users understand that the concepts of professional judgment and materiality are to be considered in assessing whether financial statements would provide information on non-compliance with financial authorities.

Chapter 4

We are concerned with the amount of detail in this chapter and question its appropriateness in a conceptual framework. The purpose of chapter 4 is to highlight the role of the financial statements. However, there is significant focus on how financial statements do not meet the financial reporting needs of users (i.e., paragraph 4.08).

We also question that the information in Chapter 4 warrants a separate chapter and suggest the pertinent information found in this chapter (i.e., paragraphs 4.03 - .06) be moved to the end of chapter 3.

If PSAB does determine that chapter 4 should remain, we suggest removing paragraphs that are repetitive as suggested in the terminology section of our response.

We note that paragraph 4.07 is a repeat of paragraph 3.31, where the wording is clearer. Therefore, we suggest paragraph 4.07 be removed.

Should PSAB choose to keep paragraph 4.07, we question the use of the term "sustainability" as it is an indicator of financial condition in SORP 4, as well as the use of "governance" in paragraph 4.07 which is not spoken to in paragraph 3.31. As this term is used throughout the document we suggest adding it the glossary.

Chapter 5

Paragraph 5.02 states that the decisions surrounding financial statement foundations allow for the establishment of consistent concepts and standards for statements and for preparers to make consistent accounting and financial reporting decisions.

We agree that consistency is important as it allows for comparability between financial statements. However, the wording in paragraph 5.02 seems to focus solely on the concept of consistency while there are many other financial statement characteristics that have been identified in Chapter 7. We suggest removing the term "consistency" from paragraph 5.02 and incorporating a link to the characteristics that concepts and standards are attempting to achieve.

Chapter 6

We have the following specific concerns surrounding Chapter 6:

- The last sentence of paragraph 6.17 is confusing. It is not clear how reporting the amount of non-financial assets can inform why financial resources and financial obligations have changed. Therefore, we suggest removing or rewording point (a).
- Paragraph 6.25 lays the groundwork for introducing the “accumulated other” component of net assets/liabilities. We continue to believe that there is not sufficient, conceptually based justification for the “accumulated other” component.

Should this component remain we suggest wording changes be made to paragraph 6.25. Specifically, wording should be added that the use of this component would be rare. Additionally, we suggest removing “...certain circumstances, as identified and approved by PSAB,...”. Instead we believe the wording should point to specific standards, which will be established pursuant to due processes, allowing the use of the accumulated other component.

- Objective 6 in paragraph 6.36 speaks to the requirement of disclosing risks and uncertainties in the financial statements. Although we agree with this concept, and we acknowledge that it is not PSAB’s intention to increase related disclosure requirement, we are concerned that the scope of the proposed wording could be misinterpreted as an increase in the existing risk related disclosure.

We suggest revisions to this section to focus specifically on the risk and uncertainty disclosure that should be included in the financial statements. Specifically, we suggest merging paragraphs 6.37 – .38 by removing the last sentence and points (a) and (b) of 6.37 and the first sentence of 6.38. We also suggest removing paragraph 6.39, except for the last sentence, which we feel is important to the objective and should be included in paragraph 6.36.

Additionally, we suggest removing “detailed” from paragraph 6.40 as it is not used elsewhere in the proposed conceptual framework, and we believe it is especially misleading in the context of disclosing risks and uncertainties. Further, the words used to describe the way disclosure should be presented “clear and sufficient, not exhaustive or overwhelming” are too subjective.

We suggest changing paragraph 6.40 to instead state: Professional judgement should be used to provide information about risks and uncertainties in the Financial statements.

Chapter 7

There are redundancies in the concepts of neutrality in paragraphs 7.17 – .19 and prudence in paragraphs 7.45 – .46. While different terms are used (i.e., neutrality refers to being “bias-free” and prudence speaks to avoiding deliberate understatements/overstatements), we believe the concepts are the same. Therefore, we suggest removing prudence from Related Considerations (paragraphs 7.45 – .46).

Chapter 8

We suggest removing the reference to performance obligations in the last sentence of paragraph 8.20 as this type of example is too specific at the conceptual level, and rather should be provided in individual standards.

Paragraphs 8.23 to 8.27 of the CF define and list types of revenue and expense, but do not provide other guidance on these elements. It would be useful for the CF to provide guidance for determining whether an amount should be reported as revenue or negative expense (alternatively as expense or negative revenue).

Chapter 9

We note that PSAB has acknowledged in the basis for conclusions that there is a redundancy in 9.05 (a) and (b). We question whether retaining this redundancy is appropriate as it may increase the risk of misinterpretation.

Chapter 10

We question whether paragraph 10.25 should be in the proposed conceptual framework. If legislation exists which requires a deviation from the conceptual framework and/or standards, then the statements do not comply with PSAB. Requiring disclosure of which concepts and/or standards are not complied with does not bring the financial statements into compliance with PSAS. Therefore, we suggest removing this paragraph.

Terminology and wording on the proposed Conceptual Framework

It is critical that terminology and wording introduced and used in the proposed conceptual framework (CF) be applied consistently within the CF and across all standards and guidance issued by PSAB. We noted the following areas of inconsistent wording and/or wording that cause us concern.

Terms used to describe public sector entities

We have concerns with the different terms used to refer to public sector entities/governments throughout the CF. Specific examples of our concerns are as follows:

1. The term "government", as used in the description of public sector entities in paragraph 2.02, refers to the "whole of government". The term "government" and the phrase "whole of government" are used interchangeably throughout the CF (e.g., paragraphs 2.04 and 5.05). Although we believe that the phrase "whole of government" is a more fulsome description, it may be cumbersome to use in all cases. To facilitate consistent use of terminology, the term "government" should always be used when referring to the "whole of government" and a footnote added to clarify what the word refers to.

Propose to change wording in paragraph 2.02 of the CF to "Identifying the characteristics of public sector entities, which include governments¹, components..."

¹ *all references to "government" in the context of public sector entities refers to the "whole of government".*

A related consequential amendment to the Introduction to PSAS would also be required.

2. Naming of government ministries/departments as “government components” is not meaningful without explanation and is potentially confusing as the word “component” takes on more than one meaning in PSAS. For example:
 - a. “component” refers to a government organization, when used in the phrase “component auditor”, in the Canadian Audit Standards;
 - b. “component” refers to parts or sections of the CF in paragraph 1.16 under the heading “Components of the Conceptual Framework”; and
 - c. “component” refers to classifications of net assets and liabilities in PS 1202.044.

Paragraph 2.09 of the CF indicates that government components “...essentially form the core of government.” We believe that the phrase “core of government” does not require further explanation and question why it is not used instead of “government components” throughout.

Propose to rename ministries/departments from “government components” to “core of government” throughout the CF and PSAB standards. Specifically, in paragraph 2.09, the wording could be changed to “~~Government components are integral to government and essentially form the~~ The core of government consists of programs², funds¹ and units². Depending on their objective(s).....”

¹ terminology from paragraph .04 of the Introduction

² terminology from paragraph 2.09 of the CF

NOTE: Points 3 through 5 are made, without incorporating changes proposed in points 1 and 2 above.

3. Inconsistencies in the use of “public sector entity” were found. For example:
 - a. paragraph .02 of the Introduction to Public Sector Accounting Standards (PSAS) indicates that “public sector refers to governments, government components, government organizations and partnerships”; This paragraph also states that “each of these entities is a public sector entity”.
 - b. Paragraph 2.02 in the CF does not include partnerships in the list of public sector entities; and
 - c. PS 3060.06 defines a partnership as “not a government organization but [is] a contractual arrangement...”, therefore suggesting that partnerships are not entities.

If the wording in paragraph 2.02 is intentional, then the Introduction to PSAS requires a change in wording to achieve consistency with the CF and PS 3060. If leaving partnerships off the list of public sector entities in paragraph 2.02 was an oversight, then the CF and PS 3060 require revision to achieve consistency with paragraph .02 in the Introduction.

4. There are inconsistencies in the CF related to the terminology for “government organizations”, which are occasionally referred to as “organizations”, and for “government components” which are occasionally referred to as “components” (e.g., paragraphs 2.08, 5.03).

Propose to consistently use terminology as defined in the Introduction to PSAS, which is "government organizations" and "government components".

5. Paragraph 2.08 indicates that both government components and government organizations are "extensions of government". For government components, this contradicts both the wording in paragraph 2.09 of the CF and the definition of a government component in paragraph .04 of the Introduction to PSAS which both indicate that a government component is an integral part of government.

Propose to change wording in paragraph 2.08 to read "~~Both types of entities are~~ Government components are integral to government while government organizations are extensions of government and their combined role....."

Definitions – general issue, as discussed elsewhere, with various uses of the terms financial and non-financial as they relate to assets, liability, net assets and net liabilities. Definitions of these terms are equally confusing.

General wording on the proposed Conceptual Framework (referenced to paragraph numbers)

Chapter 2

- 2.08 Notes that "Government components and government organizations are created through government policy, legislation or bylaws." We question why policy is included in this list as typically, federal, provincial and municipal governments create entities through legislation or bylaws.

Propose that policy be removed from this sentence. If it is determined that it should remain (pertinent to another level of government), reorder wording to "~~policy~~, legislation, ~~or~~ bylaws or policy".

- 2.11 Point (b) was added in response to comments from stakeholders who said that tying "inherent public accountability" solely to the "power to tax" is not representative of those government organizations that do not have the power to tax. The way it is now worded suggests that only governments have the power to tax, which is not always the case (e.g., certain school divisions in Saskatchewan have that power).

Propose to remove point (b) and change the wording in (a) to "~~a government's~~ their power to tax and otherwise obtain and use public resources", consistent with the usage of the word "their" in the other points.

- 2.11 The wording in point (d), "which can impact their sustainability", implies that there are negative consequences associated with issuing debt. This is an opinion and therefore not appropriate in the CF.

Propose dropping the words "which can impact their sustainability" from point (d).

- 2.19 to 2.21 We question the need to include descriptions of the three revenue streams identified in paragraph 2.18. The description for each of these streams can be found in the individual standards and we do not believe this level of detail is appropriate for the CF.

- Propose to delete paragraphs 2.19 to 2.21.*
- 2.22 Some of the listed authorities do not pertain to all levels of government
- Propose a change to the opening sentence to "Governments may have ~~also~~ been granted the authority, among other things, to:"*
- As well, the making and enforcing of laws and regulations is required to enable all activities of governments, and because of this we believe that it is the most important power, right and responsibility.
- Propose to make point (c) first in the list.*
- 2.26 While this paragraph reflects how governments operate with respect to the issuance of debt, we question whether this level of detail is appropriate in the CF.
- Propose to remove this paragraph.*
- 2.35 The listing of different types of governments in this paragraph has Indigenous governments ordered first followed by other types of governments. This ordering is not consistent with that in paragraphs 2.38 through 2.42, paragraph 2.43, as well as the points in paragraph 2.52.
- Propose there be consistent ordering throughout the CF when referring to the various types of governments.*
- 2.68 While we agree with adding the longevity of governments as a characteristic of a public sector entity, there are redundancies between paragraph 2.68 and 2.69 as both speak to this expectation for governments to operate in perpetuity.
- Propose to remove paragraph 2.68.*

Chapter 3

- 3.24 The word "plan" is used interchangeably with the word "budget" in the CF.
- Propose that the word "plan" be changed to "budget" throughout the CF for consistency.*
- 3.27 The wording in this new paragraph is confusing.
- Propose to change wording to "Financial performance is an accountability ~~a measure of an entity's accountability~~ for the results of ~~its~~ an entity's policies, operations...."*
- Figure 3.1 Refers to "value for money" reporting as an example of reports outside of the financial statements, however, there is no guidance provided for this type of report.
- Propose that examples are defined, if not otherwise defined in PSAS, through the use of footnotes to this figure.*

Chapter 4

Chapter 4 does not warrant a separate chapter and relevant information found in this chapter could be integrated and included in the introduction to chapter 5. In addition, we have the following specific comments on the wording and content of this chapter:

- 4.07 We have concerns over the use of the word “sustainability” in point (c), and again in point (f) of 4.08, without including a definition of “sustainability” the CF. SORP 4 includes “sustainability” as an important element in the assessment of financial condition. Multiple uses of the term “sustainability”, could result in misinterpretation. Is it intended that the meaning of “sustainability” in the CF mirror that defined in the SORP?

Propose to define sustainability in the CF or, if meaning provided in the SORP is relevant to the CF, make a footnote reference to the meaning described in the SORP.

- 4.08 The wording in point (b) wording is not consistent with other points.

Propose to change wording to “...economic obligations, past transactions and other events...”

- 4.08 Also, the wording of the last sentence in point (g) suggests that comparability between entities is not easy, and in doing so perhaps negates the value of a framework.

Propose to soften the words as follows: “~~Comparing entities that use~~ Because of this, consistency in reporting in accordance with PSAS is impacted by the use of different accounting estimates, techniques or policies ~~may be difficult and complex.~~”

- 4.10 There is repetition of information in this chapter that could be eliminated. For example, the wording in paragraph 4.04 duplicates that in paragraph 4.10.

Propose to delete paragraph 4.10 as it does not add any new concepts. In addition, peruse the entire chapter for redundancies that could be removed.

Chapter 5

- 5.05 The wording in this paragraph implies that government components do not have their own management and have not been delegated financial powers and operational authority. We disagree with this concept as Saskatchewan ministries typically have their own management, and often ministry-specific legislation. They are delegated financial and operational authority.

- 5.08 As indicated in our earlier comments within the Concept of Control section of our response, we disagree with the use of the phrase “economic resources and other entities” throughout the CF. We repeat this concern here as we feel that it is critical to the understanding of control, a fundamental concept in the CF and throughout the PSAS.

In light of our comments in the Concept of Control section, we propose the wording in 5.08 be changed to incorporate the focus on economic resources as follows: “The concept of control in determining which economic resources are associated with an entity is equally”

important in ~~determining what other~~ in defining which entities are associated with a government reporting entity for the purpose ...”.

We recommend this amendment be applied throughout.

- 5.09 This paragraph speaks only to the concept of control in its relationship to “assets”. Footnote 7 draws a parallel to “liabilities”. We understand that not all footnotes in this ED are intended to remain in the final CF. Without footnote 7, the paragraph would need to speak to “liabilities” as well.

Propose that footnote 7 remain in the CF and if not, transfer the information to the paragraph.

- 5.11 The phrase “common understanding” used in this paragraph is difficult to interpret and weakens the definition of control.

Propose to address this question and clarify the definition of control by changing the wording to “Control, as a financial statement foundational concept, ~~reflects the common understanding of~~ is having the existing ability to direct the use of ~~something, such as~~ economic resources ~~or other entities~~, with the expected benefits and/or risk of loss accruing to the reporting entity.

- 5.15 We agree with the wording in 5.14 that speaks to the concept of control existing along a continuum, however the wording in paragraph 5.15 reads as an either/or statement and could be misleading. It should reflect that control can be anywhere between no control and unilateral control.

Propose to change wording to “The concept of control ~~includes shared control~~ is a continuum from no control as well as to unilateral control, and includes shared control.”

- 5.16 to 5.20 In some cases, this is a repeat of the guidance in PS 1300. We question whether this detailed guidance belongs in the CF, as noted in our earlier comments within the Concept of Control section.

Propose to remove these paragraphs from the CF and add any new concepts introduced in the CF at the standard level in PS 1300.

If paragraph 5.20 remains, change its wording to “A ~~reporting entity’s~~ government’s power or right...”

- 5.26 We find that the flow of information in paragraphs 5.24 through 5.27 is confusing. The paragraphs that follow Foundation 3 seem to provide a choice for something that has been established in the Foundation.

We recommend the wording of this section be revisited and revised, if necessary. Possibly, using “could be expressed” in place of “can be expressed” would help.

Chapter 6

In this chapter, the phrase “components and controlled organizations” is used a number of times (6.04, 6.09, 6.10 and 6.34). Paragraph 1.14 of the CF makes it clear that the concepts within apply to all public sector entities, including a government’s components and its controlled organizations. This phrase can be deleted without losing the message in each of the paragraphs, and we suggest it be removed.

Our specific comments on this chapter follow:

- 6.09 The wording of this objective in the existing paragraph PS 1100.15 “financial statements would account for the full nature and extent of the financial affairs and resources which a government controls” is much clearer than the proposed wording. We recommend that it be retained.

Further, the proposed wording suggests that there is a difference between the financial affairs referenced in the first sentence and economic resources in the second.

Propose that the wording of this paragraph be changed to “Financial statements of a public sector entity should account for the full nature and extent of the financial affairs ~~of an entity~~. ~~They should also account for the~~ and economic resources that it controls and the economic obligations it must settle, ~~including those of its components and controlled organizations~~.”

- 6.10 As raised in 6.09, the proposed wording suggests that there is a difference between financial affairs and economic resources. Also, consideration should be given to moving the information from footnote 10 into this paragraph.

Propose to change the wording to “...would account for the full nature and extent of the financial affairs and economic resources that it controls and ~~economic~~ the obligations for which it is responsible accountable including those of its components and controlled organizations.”

This wording is clear, concise and ties it back to the notion of control in paragraph 6.09. This change impacts the wording of other paragraphs including, but not limited to: 6.12 and 6.32.

- 6.11 The proposed wording change in paragraph 6.09 above, together with wording in paragraph 1.14 of the proposed CF, adequately informs the reader that this objective applies to all levels of government.

Propose to remove this paragraph in light of the proposed wording changes in paragraph 6.09.

- 6.12 Wording could be clarified when speaking to the various levels of reporting entities in the first sentence.

Propose to change wording in the first sentence to “The financial statements of ~~a reporting entity~~ public sector entities are not intended...”. This is consistent with the use of “a government” and its reference to “whole of government” earlier in our comments.

Also, we question the inter-changeable use of the wording “consolidated financial statements” and “summary financial statements” throughout. The statement in PS 1000.02 that “financial statements refers to the summary financial statements” has not been replicated in the CF. Was this intentional?

Propose that there be consistency throughout the PSAS when referring to “consolidated” versus “summary” financial statements including, but not limited to, the last sentence in this paragraph.

- 6.14 The word “sustainability” has replaced “viability” used in the existing CF. We question this wording change and are concerned that it may cause confusion between its meaning in this context versus SORP 4.

Propose to remove the word sustainability as follows “Such information helps users assess the entity’s ~~financial sustainability, its service capacity...~~”

- 6.21 We have two concerns in this paragraph where the concept of net debt gets renamed.

Our primary concern is with the terminology being introduced to replace “net debt” as discussed in the Reporting Financial Position section of this response.

A secondary concern is the use of the term “affordability”, a new term introduced here for the first time. It is not clear if this is meant to carry a different meaning than “sustainability” used elsewhere in the proposed CF or “viability” used in the existing CF. We suggest that the need to introduce a new term be revisited and consideration be given to providing a definition.

This also applies to PS 1202.042.

- 6.22 It is not clear how “how the entity financed its activities” in point (b) and “how it met its cash requirements” in point (c) are different. We note that paragraph 6.26 speaks to financing as a means of meeting cash requirements.

Propose to delete point 6.22 (b).

There is inconsistency between the wording used in this paragraph and the supporting paragraphs that follow. The word “use” is used in place of “consumption” in paragraphs 6.24 and 6.26.

Propose to change the wording in paragraph 6.22 (a) to “the sources, allocation and ~~consumption~~ use of...”

Chapter 8

- 8.10 In light of footnote 18, we question the phrase “transactions and other events” in this and other paragraphs. If events include transactions, as footnote 18 suggests, then we suggest the term “events” be used throughout.

Furthermore, we don’t understand the second sentence. We are not sure that the public sector is unique in that “several events, rather than just one, may give rise to an asset”.

Propose changing the phrase "transactions and other events" to the word "event" throughout. Further clarification, if deemed necessary, can be achieved by introducing footnote 18.

Also, further amend the wording in the first sentence to accommodate the deletion of the last sentence as follows: "...must arise as a result of one or more past transactions or other events."

- 8.11 The difference between "controlling an economic resource" and "having access to future economic benefits" separately referred to in point (a) is not clear. The wording seems to imply that these are two separate concepts.

Propose to change wording in point (a) to "...controls the economic resource ~~and~~ giving access to the future economic benefit(s)."

- 8.13 This paragraph simply restates paragraph 8.11. Unnecessary duplications can increase the risk of misinterpretation.

Propose to delete paragraph 8.13.

- 8.21 As in 8.13, we question the need for this paragraph (duplication of 8.19).

Propose to delete paragraph 8.21.

Chapter 9

- 9.01 In this paragraph, the word "item" is added to the phrase "items, transactions and other events". In the context of financial statement recognition and disclosure, adding the word "item" is appropriate. However, as in our previous comment on paragraph 8.10, given other wording the use of "transactions" and "events" together is not required.

Propose changing the phrase "items, transactions and other events" to "items and events" throughout.

- 9.32 The discussion of the measurement attributes indicates that historical cost is a measurement attribute used for initial measurement. It may be helpful to note in this paragraph that, for most exchange transactions, fair value and historical cost are the same at initial recognition.

Chapter 10

- 10.03 to 10.06 These paragraphs don't speak specifically to the presentation definition, but rather general presentation concepts and therefore are better placed in the introduction section rather than in the definition section. The points listed in paragraph 10.05, itemizing the three main sections in this chapter, support this placement.

Propose to move paragraphs 10.03 to 10.06 to the Introduction section of this chapter.

- 10.03 Paragraph 9.01 speaks to recognition and measurement being inextricably linked. In light of this, recognition and measurement should be mentioned together.

Propose to change the wording to "...the element definitions and the recognition and measurement criteria..."

- 10.06 The accountability objective referred to in this paragraph is clarified by footnote 27, referenced from 10.07 (a), noting that the objective of financial reporting is to provide information for accountability purposes. Paragraph 10.06 should be reworded and should also reference footnote 27.

Propose to change the wording to "...to make the financial statements understandable or to meet the ~~accountability~~ financial reporting objective ²⁷."

- 10.07 A definition should be considered for "fair presentation", perhaps by way of a footnote.
- 10.11 We agree with the concept that financial statements must be read as a whole. However, we wonder if the statement that notes and schedules have the same significance as the financial statements needs to be softened somewhat to emphasize that disclosure is not a substitute for appropriate accounting. We propose to either move or repeat the last sentence of 10.13 in 10.11.
- 10.14 We agree with the concept here but find the term "cohesiveness" in the opening sentence to be vague.

Propose to remove "~~when evaluating the presentation of an entity's financial position for cohesiveness and how well it meets the qualitative characteristics of financial information.~~" from the first sentence.

- 10.26 We question whether "Trade-off" is a separate presentation concept from "Presentation choices".

Propose to introduce this concept as point (e) of 10.27 using the following wording: "(e) trade-off between presentation concepts and maximizing usefulness for users". Then move paragraph 10.26 and its heading to immediately following paragraph 10.36.

PS 1202 – Financial Statement Presentation

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

Non-financial liabilities

The exposure drafts introduce the concept of non-financial obligations (Reporting Financial Position, Chapter 6, Objective 2) and establish the new non-financial classification of liabilities. While we agree with non-financial economic obligations conceptually, the guidance provided for non-financial liabilities is not easy to follow.

We find it difficult to distinguish between financial and non-financial liabilities based on the guidance provided. The definition of a non-financial liability in PS 1202.084 indicates that there may be non-financial liabilities other than non-financial performance obligations. This guidance adds confusion and we question whether this distinction is necessary. We suggest removing the references to performance obligations in the definitions of financial liabilities and non-financial liabilities by deleting the final sentence in each of PS 1202.005 (c) and (d), PS 1202.073 and PS 1202.084.

The distinction could be made in reference to PS 1202.085(a) which specifies a capital transfer that is settled through the use of a non-financial assets is a type of non-financial liability. Of the three types of non-financial liabilities listed, (a) is the only type that does not refer to non-financial performance obligations. In our view, the use of non-financial assets qualifies as a non-financial performance obligation. Such is the case for capital transfers that have stipulations strong enough to meet the definition of a liability and be settled over the life of the transferred or acquired asset.

In PS 1202.085, we question whether the second and third types differ. Each is a non-financial performance obligation that is settled by providing access to rights or resources. The user-pay P3 model (from 1202.085(b)) is an example of the type of non-financial liability described in PS1202.085(c). Therefore, we suggest that the two points be combined. This suggestion also applies to paragraph .091.

The example provided in PS 1202.086 is confusing. We believe the guidance means to explain that how performance obligations are settled plays a key role in the determination of whether a liability is non-financial leaving the classification open to interpretation. This message could be made clearer.

PS 1202.086, footnote 21 refers to another standard as does the example used. However, we do not think this is the best way to provide guidance. As non-financial liabilities are such a new concept, additional guidance is warranted in this specific standard. As well, an appendix may be appropriate. In addition, we suggest removing footnote 21 and including this guidance in PS 1202.

PS 1202.083 seems out of place as it introduces the concept of non-financial liability in the financial liabilities section. PS 1202.083 should be moved to the non-financial liabilities section (below the title).

PS 1202.087 restates guidance and footnotes wording from PS 3400. PS 1202.079(i) specifies that requirements on performance obligations are outlined in PS 3400, and we disagree that the repetition is necessary. Additionally, the guidance in PS 1202.087(c) is difficult to follow as the phrase, "further subdivided for classification purposes" isn't clear.

Statement of Cash Flow

Exclusion of non-cash transactions

We acknowledge that the existing Statement of Cash Flow guidance requires reporting only cash transactions generated and used in the period. However, in our view, the indirect-method cash flow statement provides better accountability when it presents the periodic change in all assets and liabilities classified as operating, capital, investing and financing activities in their entirety to reconcile opening cash to closing cash.

Specifically, with the more extensive use of public private partnerships (P3s), the expanded definition of non-financial assets and the introduction of non-financial liabilities, we believe a cash flow statement prepared by the indirect-method should no longer exclude non-cash items.

Certain activities that are significant to government financial statements may be entered into without an exchange of cash (i.e., P3 arrangements) and would not be presented as financing and capital activities. We believe that reporting on these transactions in the cash flow statement provides better accountability.

Financing Activities

The guidance on cash flow from financing activities references only those transactions related to issuance and proceeds of debt. The term "debt" has a very specific meaning in the public sector, which doesn't include significant other long-term financing arrangements, such as P3 and capital lease obligations. We are unsure whether the exclusion of other forms of financing was deliberate. We disagree with the exclusion.

Reporting all forms of long-term financing arrangements provides a more accurate picture of the public sector entity's financing activities. Exclusion of any financing activities, especially P3s, reduces accountability and may mislead the public in terms of the public sector entity's sustainability.

We also disagree that reporting net cash before financing transactions is an improvement to the Statement of Cash Flow. We understand that this change is intended to focus on sustainability. The presentation of this new subtotal is not significant enough to warrant the loss of the overall change in cash. We believe that the presentation of the overall change in cash segregated by the four activities is much more informative and useful to the user.

Accumulated Other Component

PS 1202 presents accumulated other as an option for presenting the components of net assets or liabilities. Since there is no guidance for transactions to be recorded in this separate component of

net assets, we believe this option should not be included in PS 1202. The CF has allowed for such a component to be used by PSAB for future standard-setting (in rare circumstances). However, including this presentation in PS 1202 may lead to misinterpretation that such a component is available for use.

In addition, we disagree with the inclusion of endowments in the PS 1202 illustrative examples. Although presented as an example, this inclusion presupposes the recommendations of any future task force and may impact the due process. PSAB has clearly stated its position.

Capital Transfers

Capital transfers, presented throughout PS 1202 as possible examples of non-financial liabilities (footnotes 13, 18 and 23, the illustrative financial statements and the consequential amendment PS 3410.23A), makes the recognition of transfer revenue over the life of an asset appear to be the default treatment under PS 3410.

We disagree that this is an appropriate interpretation of PS 3410 and disagree with using examples that reinforce such interpretation. These examples omit the critical assessment requirement in PS 3410. For a liability to be recorded on receipt of a capital transfer, the liability definition must be met. This requirement is not reflected in PS 1202.

We also note that the illustrative examples show capital transfers received as a capital activity, but guidance in PS 1202.171 does not indicate this. This inclusion again suggests that all capital transfers are deferred on receipt. We strongly disagree with the inclusion of capital transfers as part of the illustrative example.

We are concerned with the guidance provided in PS 1202.091(a) footnote 23. It proposes that the GAAP hierarchy could be used to circumvent the recommendations in an existing standard. This is inappropriate. If PSAB believes that amendments to existing standards are required, changes should be proposed in a separate project to allow for due process. New guidance should not be introduced in PS 1202.

Additional ~~items~~ comments on the proposed PS 1202 Financial statement presentation

There are a number of places in the proposed PS 1202 where wording from other sections is repeated. To eliminate this repetition, the following changes to footnotes are suggested:

- Remove any duplication of footnotes, for example:
 - PS 1202.005 footnote 7 duplicates footnote 6;
- Delete replication of existing standards in footnotes, for example:
 - PS 1202.085 footnote 19 should be replaced with a reference to PS 3410.23(c)
 - PS 1202.086 footnote 21 should be replaced with a reference to PS 3400.39
 - PS 1202.087 footnote 22 should be replaced with a reference to PS 3400.31
 - PS 1202.110 footnote 25 should be replaced with references to PS 3400.A40 and PS 3510.44

We understand that some of the footnotes are not intended to be issued with the final standard, however, it is not clear which footnotes will be removed. This adds complexity to the task of commenting on the exposure draft.

We note the following concerns with respect to specific items in the proposed PS 1202:

PS 1202.005(e) Performance obligations are defined in terms of a “payor” being provided goods or services. Given that non-financial performance obligations are performance obligations that may not relate to a payor, the definition of a performance obligation may need to be revised. We suggest removing wording after “...goods or services”, which will impact the definition in PS 3400.05.

PS 1202.032 We agree that immaterial items should be aggregated. However, this paragraph is inconsistent with that message. Any requirement to disclose specifics on immaterial items seems inappropriate. If an item is immaterial, it is deemed to not impact a users’ decision making, therefore its presentation in the financial statements is a matter for professional judgment. We suggest this guidance be removed.

PS 1202.043 The list of possible assets and liabilities could include PS 3310 Loan Guarantees.

PS 1202.052 It is not clear why, with such an exhaustive list of standards on specific assets, the assets standard PS 3210 is not referenced. We suggest adding a reference to PS 3210.

PS 1202.068 Prepaid expenses are said to expire over the passage of time or through use. Does “use” refer to the receipt of performance obligations from an external party? Performance obligations are a new and significant part of the proposed conceptual framework, but no acknowledgement of the receipt of a performance obligation has been considered. We suggest adding this guidance.

PS 1202.079 It is not clear why, with such an exhaustive list of standards on specific liabilities, the liabilities standard PS 3200 is not referenced. We suggest adding a reference to PS 3200.

PS 1202.079 The wording of footnote 17 is unusual. We question whether unearned revenue needs to be raised in this context, and if so, why the footnote refers to “some” entities. We suggest removing this footnote.

PS 1202.133 This paragraph speaks to PSAB’s process for introducing items initially recognized outside of surplus or deficit. The details of PSAB’s process seem out of place in a standard, and we suggest this paragraph be removed.

The illustrative financial statements include the user-pay P3 model as examples of non-financial liabilities. In order to ensure that users understand that other P3 models exist, we think that P3 obligations should also be included as an example of financial liabilities.

General terminology and wording on proposed PS 1202 Financial statement presentation

.020 and .025 Both paragraphs speak to reporting in accordance with legislative requirements in financial statements but are contradictory to each other. Paragraph .020 states that this deviation from PSAB is acceptable through disclosure in PSAB compliant financial statements while paragraph .025 requires special purpose financial statements to report legislative requirements. We are concerned that paragraph .020 allows for deviations from PSAB in general purpose financial statements. We recommend paragraph .020 be removed.

.043 The wording in the last sentence of this paragraph only applies to contractual obligations and contingent liabilities, but should also apply to contractual rights and contingent assets referred to earlier in the paragraph.

Propose to change wording to "...financial resources that may be required or received in the future."

In the financial assets (paragraphs .045 - .058), the ordering of paragraphs could be improved as follows:

.051 The concept of financial instruments being presented as either financial or non-financial assets introduced here would have this paragraph better placed at the end of this section, a logical transition from the section on financial assets to the section on non-financial assets.

.057 & .058 These two paragraph on valuation allowances would be better placed immediately following paragraph .049, where valuation allowances are referenced.

.046 The wording in this paragraph largely mirrors that in the existing CF, however:

- with the recent adoption of PS 3380, the inclusion of the term "contractual rights" in a listing of what assets may include is no longer appropriate. A contractual right, as defined in 3380, is not an asset, but rather will result in an asset in the future;
- we question the need for paragraph .046 as it provides a list of types of assets (at a conceptual level) that is duplicated using financial statement terminology in paragraph .047; and
- there is no equivalent of paragraph .046 in the non-financial assets or financial liabilities sections.

Propose to improve consistency between the financial assets and financial liability sections by deleting paragraph .046. Consistency would be further improved by additional changes as follows:

- *remove paragraph .060, moving the list within to paragraph .061 and changing the wording in paragraph .061 to "...segregated by main classifications such as: ~~those listed in paragraph PS 1202.060.~~"*
- *remove paragraph .074, moving the first sentence in paragraph .074 to paragraph .073 as follows: "...expected to be settled using financial assets. Most liabilities of a public sector entity will be financial liabilities which ~~Financial liabilities~~ include, but are not limited to, financial performance obligations." In addition, move the list within*

paragraph .074 to paragraph .076 and changing the wording in paragraph .076 to "...segregated by main classifications, such as: ~~those listed in paragraph PS 1202.074.~~"

- remove paragraph .085, moving the list within to paragraph .089 (after amendments suggested to provide (b) as an example of (c)) and changing the wording in paragraph .089 to "...segregated by main classifications such as: ~~those listed in paragraph PS 1202.085.~~"

Alternatively, if .046 must remain, propose to change the wording to:

"(c) a ~~contractual~~ legal right to receive cash..."

"(d) a ~~contractual~~ legal right to exchange..."

There are further inconsistencies between the various sections of assets and liabilities (1202.045 through 1202.091 including:

- there is no paragraph in the non-financial assets section that mirrors paragraphs .049, .077 and .090 of the other sections.
- paragraph .049 unnecessarily includes the words "in the notes" which are not included in paragraphs .077 and .090.

.070 & .071 It is important that it is clearly understood that there is a difference between the treatment of purchased versus developed or inherited natural resources, intangibles and Crown lands. The wording in .070 and .071 could be clearer.

Propose to combine certain parts of .070 and .071 as follows:

.070 ~~"Purchased~~ Natural resources, intangibles and Crown lands that are purchased are recognized in financial statements...and the general recognition criteria (in Chapter 9 "Recognition and Measurement in Financial Statement," of the Conceptual Framework). In contrast, natural resources, intangibles (such as wireless spectrum rights, air rights, sea rights and forestry rights) and Crown lands (such as water, forests and minerals) that are inherited in right of the crowns are not recognized in financial statements.

.071 ~~In contrast,~~ The following are also not recognized as assets in financial statements:
a) ~~natural resources and Crown lands inherited by the entity in right of the Crown and not purchased (such as water, forests and minerals);~~
b) ~~developed intangibles and intangibles inherited in right of the Crown (such as the wireless spectrum rights, air rights, sea rights and forestry rights);~~
c) "human capital" that embodies the talent or intellectual capital of an entity's employees; and
d) all works of art and historic treasures."

.079 Inconsistencies in the reference to PSAS sections, some include the referenced section number and name and others just the section number (eg., .079 (d) vs. .079 (e))

Propose to make all references to other sections consistent throughout.

.080 We question why this paragraph is not intended for all loans payable instead of only loans payable to other public sector entities.

Propose to change wording to "...of an entity's loans payable ~~to other public sector entities~~ includes..."

- .107 The wording "all the revenues and expenses of the period" in this paragraph could be interpreted to mean that details of all components is required, duplicating presentation from the Statement of Operations.

Propose to change wording to "...presents ~~all~~ the changes of the period..."

- .115 & .117 The terminology "statement of surplus or deficit" is only referred to in paragraph .115. We recommend that it be changed to the "Statement of Operations" to be consistent throughout.

Saying that a Statement of Operations should report revenues and expenses recognized in the Statement in paragraph .117 is a circular reference, so to speak.

In addition, these paragraphs duplicate the same guidance and therefore should be combined with the suggested wording changes:

"An entity should recognize...in the Statement of ~~surplus and deficit~~ Operations, unless a standard requires otherwise, by reporting:

- *(a) ~~report~~ revenues ~~in this statement~~ segregated by...*
- *(b) ~~report~~ expenses ~~in this statement~~ segregated by...*
- *(c) ~~account for~~ the surplus or deficit for the period, which is the difference between the revenues and expenses ~~recognized in the statement of operation.~~"*

- .122 Even though this wording exists in PS 1201.088, we question the need for separate mention of transfer payment to other public sector entities and to the public.

Propose to change remove words as follows: "...transfer payments ~~to other public sector entities and to the public~~, as well as..."

- .138 The wording is future oriented.

Propose to change the wording to "All entities ~~will~~ have an accumulated surplus or deficit component..."

- .141 There are many references to "reporting entity" within.

Propose that these references be replaced with "entity"

- .145 These words, indicating that PSAS will be updated as needed, are inherent and not specific to just this guidance.

Propose to remove this paragraph.

- .151 Should clarify that this applies only to retroactive application without restatement.

Propose to remove this paragraph and consider a consequential amendment be made in PS 2120.

- .189 We are concerned that the wording in the final sentence is subject to interpretation in what type of classifications are intended. We believe that budget classifications should be based on additions, amortization, etc. rather than on the asset classes such as land, buildings, machinery, etc.

Propose to remove the last sentence in paragraph as paragraph .188 already speaks to what should be included as the budgeted amounts if the statement of change in net assets/liabilities is prepared.

- .191 - .197 In paragraph .191, the concept that reporting entity's budget is based on approved budgets for all controlled entities is not representative of reality. For instance, the approval of a controlled entity's budget might be reliant on funding approved in the controlling entity's budget. Therefore, the higher level approved budget, not the individual budgets, is what matters to the comparison of budget to actual in the financial statements. This is not represented in the wording of this paragraph. However, we strongly believe that this concept in this new paragraph is a matter of professional judgement and therefore not necessary.

Additionally, footnote 31, referenced in paragraph .194, requires a budget restatement for a material scope difference, however paragraph .197 indicates that, in this same situation, an actual-to-budget comparison cannot be presented in the statement of operations.

Propose that paragraphs .191 and .197 be removed.

- .199 While we agree that there is a notable difference between a budget and a forecast, we disagree that the crucial distinction between a budget and a forecast is approval by the appropriate authority. A forecast, similar to a budget, also requires approval by authorities.

We propose that this paragraph be framed differently by speaking to how a forecast differs from a budget (original or amended), which is the starting point representing the financial and policy plan.

- .201 The wording "in-year estimated" is misleading in that it is intended to refer to budgets, but typically refers to forecasts.

Propose to change the wording to "...If ~~in-year estimated~~ capital expenditures are ~~approved~~ budgeted for the year, the use of this budget may best serve..."

- .202 - .204 Similar to our comments on the CF, we would like the concept of materiality added into this guidance.

- .205 - .206 These two paragraphs are conceptual in nature and duplicate what is already said in the CF. Additionally, there are individual standards in PSAB that provide applicable guidance for such disclosure.

Propose to delete paragraphs .205 and .206.

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

It is important that PSAB provide sufficient time for public sector entities to implement this standard as it contains substantial reporting changes. PSAB should provide at least two fiscal years notice, and an effective date of April 1, 2024 would be appropriate only if the standard is adopted prior to March 2022.

APPENDIX A

ILLUSTRATIVE FINANCIAL STATEMENTS – SENIOR GOVERNMENTS

Senior Government Statement of Financial Position

As at March 31 (\$ millions)

	Actual 20X3	Actual 20X2
Financial assets		
Cash and cash equivalents	1,087	2,876
Accounts and accrued interest receivable	1,864	1,708
Portfolio investments	2,244	1,331
Derivatives	35	-
Investment in government business enterprises	336	207
Loans	4,909	5,659
Inventories for resale	109	135
	<u>10,584</u>	<u>11,916</u>
Financial liabilities		
Accounts payable and accrued liabilities	2,383	2,644
Derivatives	10	105
Debt	10,398	9,796
Pension liabilities	4,813	4,890
Other accrued liabilities	1,395	1,510
Unearned revenue	308	331
Transfers to acquire tangible capital assets	1,500	1,510
	<u>20,807</u>	<u>20,786</u>
Resources available (required)	<u>(10,223)</u>	<u>(8,870)</u>
Non-financial assets		
Tangible capital assets	8,218	8,215
Inventories of supplies and prepaid expenses	142	242
Investments that cannot be used to settle a financial liability or spend on future operations	10	-
	<u>8,370</u>	<u>8,457</u>
Non-financial liabilities		
Transfers to use tangible capital assets in service delivery	1,000	1,000
Public private partnership obligation (user-pay model)	-	-
	<u>1,000</u>	<u>1,000</u>
Net non-financial assets	<u>7,370</u>	<u>7,457</u>
Net assets (net liabilities)	<u>(2,853)</u>	<u>(1,413)</u>
Net assets (net liabilities) components:		
Accumulated deficit	(2,990)	(1,366)
Accumulated remeasurement gains and losses	127	(47)
Accumulated other	10	-
	<u>(2,853)</u>	<u>(1,413)</u>

Senior Government
Statement of Net Financial Liabilities
As at March 31 (\$ millions)

	<u>Actual 20X3</u>	<u>Actual 20X2</u>
Financial assets	10,584	11,916
Less: Financial liabilities	<u>20,807</u>	<u>20,786</u>
Net financial liabilities	<u>(10,223)</u>	<u>(8,870)</u>

Senior Government Statement of Operations

For the year ended March 31 (\$ millions)

	Budget 20X3	Actual 20X3	Actual 20X2
Revenues			
Income taxes	8,034	8,628	9,503
Other taxes	2,721	2,976	3,083
Non-renewable resource revenue	660	770	705
Government transfers	1,295	1,335	1,183
Revenue from exchange transactions	427	485	465
Net income from government business enterprises	50	525	97
Net investment income	409	610	747
Premiums, permits, fees, fines and licences	581	651	669
Miscellaneous revenue	100	342	402
	<u>14,277</u>	<u>16,322</u>	<u>16,854</u>
Expenses (by function)			
Health	4,541	6,626	4,457
Education	4,221	4,287	4,168
Social services	1,654	2,701	1,709
Transportation and utilities	626	823	807
Agriculture, environment and development	1,706	1,856	1,740
Justice	468	487	462
Recreation and culture	281	272	217
General government	551	627	560
Interest expense	201	267	183
	<u>14,249</u>	<u>17,946</u>	<u>14,303</u>
Surplus (Deficit)	<u>28</u>	<u>(1,624)</u>	<u>2,551</u>

Senior Government
Statement of Changes in Net Assets (Net Liabilities)
For the year ended March 31 (\$ millions)

	Actual 20X3	Actual 20X2
Accumulated deficit		
(Deficit) Surplus for the period	(1,624)	2,551
Opening balance	(1,366)	(3,917)
Closing balance	<u>(2,990)</u>	<u>(1,366)</u>
Accumulated remeasurement gains and losses¹		
Unrealized gains (losses) attributable to:		
Foreign exchange	(35)	-
Derivatives	130	(105)
Portfolio investments	54	108
Financial instruments designated to the fair value category	-	-
Less: Amounts reclassified to surplus or deficit in current period		
Net realized (gains) losses on portfolio investments	20	(50)
Other comprehensive income of:		
Government business enterprise/partnership	5	-
Net change in accumulated remeasurement gains and losses	<u>174</u>	<u>(47)</u>
Opening balance	(47)	-
Closing balance	<u>127</u>	<u>(47)</u>
Accumulated other		
Other revenue and expense recognized directly in net assets (net liabilities)	10 ²	-
Less: Other revenue and expense reclassified to surplus or deficit	-	-
Net change in accumulated other	<u>10</u>	<u>-</u>
Opening balance	-	-
Closing balance	<u>10</u>	<u>-</u>
Total net assets (net liabilities)	<u>(2,853)</u>	<u>(1,413)</u>

Senior Government Statement of Cash Flow

For the year ended March 31 (\$ millions)

	Actual 20X3	Actual 20X2
Cash and cash equivalents at the beginning of period	2,876	2,647
Operating transactions		
(Deficit) Surplus	(1,624)	2,551
Non-cash revenue and expense items included in surplus (Note X)	499	522
Items included in surplus that relate to capital, investing or financing activities (Note Y)	(1,652)	(327)
Cash (applied to) provided by operating transactions	<u>(2,777)</u>	<u>2,746</u>
Capital transactions		
Capital transfers received	495	400
Proceeds on sale of tangible capital assets	46	72
Cash used to acquire tangible capital assets	(294)	(250)
Cash provided by capital transactions	<u>247</u>	<u>222</u>
Investing transactions		
Proceeds from disposals and redemptions of portfolio investments	262	2,997
Proceeds from loans	768	1,129
Portfolio investments purchased	(594)	(4,089)
Loans provided	(290)	(280)
Other	(17)	(15)
Cash provided by (applied to) investing transactions	<u>129</u>	<u>(258)</u>
Net cash (applied to) provided by operating, capital and investing activities	<u>(2,401)</u>	<u>2,710</u>
Net cash before financing transactions	<u>475</u>	<u>5,357</u>
Financing transactions	-	-
Public debt issues	15,361	3,694
Public debt retirement	(14,759)	(6,175)
Contribution from third party	10	-
Cash provided by (applied to) financing transactions	<u>612</u>	<u>(2,481)</u>
Cash and cash equivalents at end of period	<u>1,087</u>	<u>2,876</u>

Changes in Resources Available (Required)

For the year ended March 31 (\$ millions)

	Budget 20X3	Actual 20X3	Actual 20X2
Change pertaining to operating surplus (deficit)	28	(1,624)	2,551
Acquisition of tangible capital assets	xxx	(294)	(250)
Amortization of tangible capital assets	xxx	xxx	xxx
Other	-	xxx	xxx
Change pertaining to tangible capital assets	xxx	xxx	xxx
Acquisition of supplies inventories and prepaid expense	-	xxx	xxx
Consumption of supplies inventories and prepaid expense	-	xxx	xxx
Change pertaining to other non-financial assets	-	xxx	xxx
Change pertaining to net remeasurement gains and losses		xxx	xxx
(Increase) Decrease in resources required		xxx	xxx
Resources required at beginning of year	(1,413)	(1,413)	0
Resources required at end of year	xxx	xxx	xxx



Tel: 416 865 0111
Fax: 416 367 3912
Toll-free: 888 505 7993
www.bdo.ca

BDO Canada LLP
20 Wellington Street East
Suite 500
Toronto Ontario M5E 1C5

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

June 28, 2021

Re: PSAB Exposure Draft - Financial Statement Presentation, Proposed Section PS 1202

Dear Mr. Puskaric,

We would like to express our appreciation for the time and effort the Board has invested in this project. We believe the proposed standard will assist in producing financial statements that provide useful and relevant information about public sector entities and will be easier for users to understand than those prepared under the current reporting model.

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 questions as outlined below.

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

In general, we agree with the proposed new financial statement presentation standard. However, we believe there are some areas in the proposed standard where clarification needs to be provided.

Definition of Financial and Non-financial Liabilities

Paragraph PS 1202.073 provides the definition of a financial liability and paragraph PS 1202.084 provides the definition of a non-financial liability. While we agree with the definition of a financial liability, we think the Board should reconsider the definition of a non-financial liability. The Board is updating the definition of financial assets and non-financial assets so that the definitions are binary. An asset clearly falls into either the financial asset or non-financial asset category, as any asset that does not meet the definition of a financial asset is automatically classified as a non-financial asset. Part of the reason for updating this definition is due to the issues that have occurred in practice where some assets have not seemed to fit into either of the existing financial and non-financial asset definitions. We believe these same issues could occur in practice for financial and non-financial liabilities. Thus, we would encourage the Board to reconsider the definition of a non-financial liability and instead define it the same way as non-financial assets, such that the definition would be “a non-financial liability is a liability that does not meet the definition of a financial liability.” The existing information that is currently in paragraph .084 could then be moved to/incorporated into a separate paragraph below

the definition to provide further explanation of what a non-financial liability typically is if the Board thought that was necessary.

Legislative Requirements Inconsistent with PSA Handbook

Paragraph PS 1202.020 explains that there may be situations where legislation requires entities to present information in the financial statements that is inconsistent with the PSA Handbook and that in these situations this inconsistency needs to be clearly disclosed. However, in such a case the financial statements would not be prepared in compliance with PSAS, which would be a GAAP departure. As a result, this would create an issue for the entity's auditor on whether the audit report needs to be modified, so this is not purely a disclosure issue. Similarly, paragraph PS 1202.025 discusses a situation where legislation sometimes requires certain items to be accounted for or reported in a manner that does not reflect their substance and in this case special purpose financial statements or reports would need to be prepared to comply with such legislative reporting requirements. We believe paragraph PS 1202.025 is clearer that in such situations the financial statements would not be in compliance with PSAS and instead a special purpose framework would need to be used. However, paragraph PS 1202.020 is not clear and appears to indicate that only disclosure would be needed for the financial statements to still be prepared in accordance with PSAS, which would not be true. As a result, we believe paragraph PS 1202.020 needs to be clarified to explain that in such a situation the financial statement would not be in accordance with PSAS and instead compliance with legislation would be met by preparing special purpose financial statements / following a special purpose framework. While we understand the PSA Handbook is not intended to provide assurance guidance, we believe it is important that the accounting guidance is clear on when financial statements would be considered to be prepared in accordance with PSAS and when they would not.

References to Section PS 3100

Footnotes #18 and #23 of proposed Section PS 1202 refer to Section PS 3100, *Restricted Assets and Revenues*, and state the following [emphasis added]:

18 Section PS 3100 applies to all restricted assets and revenues received from non-public sector entities except for trusts under administration and government transfers. Except for these exclusions, all other inflows of financial resources received from non-public sector entities that have external restrictions that specify the purpose or purposes for which resources are to be used fall within the scope of Section PS 3100. For all entities not permitted to or that choose not to apply the PS 4200 series, an externally restricted donation from a non-public sector entity for the purpose of building or buying a tangible capital asset would, for example, be accounted for in accordance with Section PS 3100. Revenue recognition over the useful life of the related asset is not permitted under Section PS 3100. Revenue recognition for government capital transfers to be used over the useful life of a tangible capital asset is only permitted under Section PS 3410. See note 23 below.

23 For all entities not permitted to or that choose not to apply the PS 4200 series, a donation received from a non-public sector entity with stipulations to buy or build a tangible capital asset and then use it to provide services over the useful life of the asset is not fully addressed in Section PS 3100 (see note 18 above) and is not addressed at all in Section PS 3410. This situation is only addressed in the PS 4200 series. However, in applying the definition of a non-financial liability, it may be possible to analogize to Section PS 3410 through the GAAP hierarchy in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150.

If so, when the entity receives the donation, the initial liability would be a financial liability under Section PS 3100. The financial liability may be reclassified to non-financial liabilities, similar to government transfers, as the tangible capital asset is constructed or purchased provided the obligation to use the tangible capital asset over its useful life meets the definition of a liability.

We strongly disagree with the guidance provided in these two footnotes as we feel they go beyond simply discussing presentation under Section PS 1202, to interpreting guidance in other standards of the PSA Handbook. We disagree with the statement in footnote 18 that Section PS 3100 would not allow revenue to be recognized over the useful life of a capital asset. Section PS 3100 is not overly prescriptive when it comes to accounting for externally restricted funds. Instead paragraph PS 3100.11 simply states that [emphasis added]:

- .11 Externally restricted inflows should be recognized as revenue in a government's financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met should be reported as a liability until the resources are used for the purpose or purposes specified. [JUNE 1997]

As a result, depending on the terms of the arrangement, it appears possible for revenue to be recognized over the useful life of a capital asset under Section PS 3100 and we believe this is current practice. As a result, the introduction of footnote 18 in proposed Section PS 1202 could have unintended consequences.

Additionally, we strongly disagree with footnote 23 stating that it may be possible to analogize to the guidance in Section PS 3410 through the GAAP hierarchy when accounting for revenue related to capital assets. If Section PS 3100 truly prohibited a public sector entity from recognizing externally restricted funding as revenue over the useful life of a capital asset, it would be inappropriate for an entity that did not like that answer to analogize to guidance in Section PS 3410 that it liked better. The guidance in one individual standard does not override the guidance in another individual standard (i.e. the guidance in PS 3410 would not override the guidance in PS 3100 on this issue).

As a result, we believe both footnote 18 and footnote 23 should be removed from Section PS 1202 in their entirety as they appear to be providing interpretations of guidance in other Sections and may have significant unintended consequences.

Illustrative Examples

The illustrative financial statements included in the proposed standard are very helpful. However, we noticed that while both the direct and indirect method of presenting a cash flow statement are allowed under Section PS 1202, the illustrative financial statements only present examples of cash flow statements prepared under the indirect method. As the direct method is commonly used by public sector entities in practice, we would encourage the Board to consider including an example cash flow statement using the direct method as well.

2. *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 to implement the new financial statement presentation standard, Section PS 1202. We believe this will give public sector entities the appropriate amount of time they need to prepare.



Thank you for your consideration of the above-noted responses. 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,

A handwritten signature in black ink, appearing to read 'Armand Capisciolto'.

Armand Capisciolto, FCPA, FCA
National Accounting Standards Partner
BDO Canada LLP
acapisciolto@bdo.ca
416-369-6937



LEGISLATIVE ASSEMBLY
of BRITISH COLUMBIA

June 29, 2021

Antonella Risi
Martha Jones Denning
Public Sector Accounting Board

via email

Dear Antonella and Martha,

We are writing in response to your request for input from the Legislative Assembly of British Columbia's Select Standing Committee on Public Accounts with respect to the Public Sector Accounting Board's (PSAB) proposed reporting model changes for the financial statements of governments.

The Committee met on June 24, 2021 to consider the proposed changes with officials from the Office of the Auditor General of British Columbia and the Comptroller General of British Columbia, who expressed their support for the PSAB initiative. After its review of the proposed changes, the Committee concluded that it was in general agreement with them. For your reference, a copy of the June 24 meeting documents are available on the Committee's website at <https://www.leg.bc.ca/parliamentary-business/committees/42ndparliament-2ndsession-pac/meetingdocuments> and a draft transcript of the meeting discussion is available at <https://www.leg.bc.ca/documents-data/committees-transcripts/20210624pm-PublicAccounts-Victoria-Blues>.

The Committee appreciates being included in PSAB's consultation process and has expressed an interest in hearing more from PSAB about the changes to the distinctions between financial and non-financial assets and liabilities, and looks forward to continued collaboration on this and other matters of mutual interest.

Sincerely,

Mike Bernier, MLA
Chair

Rick Glumac, MLA
Deputy Chair

cc Members of the Select Standing Committee on Public Accounts
Jennifer Arril, Clerk of Committees
Michael Pickup, Auditor General
Carl Fischer, Comptroller General, Ministry of Finance



Auditor General
MANITOBA

June 29, 2021

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

Dear Mr. Puskaric,

Re: Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

Thank you for the opportunity to provide comments on the above exposure draft. I am responding on behalf of the Office of the Auditor General of Manitoba.

We agree with the majority of the changes in the exposure draft. Our response below focuses on our areas of concern.

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

Fair presentation 1202.020

The meaning and intent of this paragraph is not clear and therefore, could result in different interpretations. When an accounting treatment is not consistent with the standards we would consider this a PSAS departure, even if the accounting treatment was legislated and adequately explained in notes to the financial statements.

If the intention is to require further disclosure on PSAS departures, then we agree with this. If the intention is to allow governments to move away from PSAS with legislation, then we do not agree with. We suggest the paragraph is updated to clarify the expectation that this is a requirement for additional disclosures when legislated accounting treatment is not consistent with PSAS.

Going concern 1202.29

It's rare for us to see entities that cease operations without their operations or assets moving to another entity in the government reporting entity. The situation described results in some confusion as to whether this is a going concern issue or a restructuring issue, and what the impacts may be on the financial statements. The addition of going concern standards may increase that confusion. We suggest PSAB

more clearly define when the going concern standards should be considered vs the restructuring standards.

Aggregating 1202.32

We feel the paragraph could be clarified by indicating if immaterial items are aggregated and still remain immaterial no disclosure is required. Currently, the paragraph is not consistent with applying materiality to the financial statements and could result in unnecessary disclosure.

Restricted assets 1202.51

The section does not specifically address temporary restrictions on assets. We think PSAB should consider also addressing temporary restrictions.

Non-financial liabilities 1202.84

We find the definition for non-financial liabilities to be confusing and likely difficult to apply in practice. We suggest that PSAB use a simpler definition, similar to how non-financial assets is defined. Additional guidance would also be useful to deal with situations where some balances, such as unearned revenue, could potentially be disclosed as financial liabilities in some cases, and non-financial liabilities in other cases.

Statement of net financial assets or net financial liabilities 1202.102

We feel that an explanation of the meaning of the indicator should be included in the notes to the financial statement. It seems unusual to include this explanation on the face of the statement when something like this would normally be in the notes.

Change in the net financial assets or the net financial liabilities position 1202.104

We have concerns with the optionality of presenting the change in the net financial assets or net financial liabilities position. We feel that all entities should present this information, and this should be required by the standard. This would ensure comparability across financial statements.

Losses arising from asset impairment and changes in valuation allowances 1202.124-126

We feel this section clarifies that changes related to remeasurement gains or losses should be recorded in the accumulated remeasurement gains and losses, while losses arising from asset impairment and changes in valuation allowances should be recorded as expenses. However, we feel that gains from changes in valuation allowances should also be discussed as the treatment of them is not clearly specified in the standard.

Comparing actual financial performance to that budgeted 1202.188

As we feel reporting the change in net financial assets or net financial liabilities should be mandatory, we feel the statement should also include the budget figures.

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

Given the significant PSAB standards coming into effect in 2022 the current timeline may result in two significant changes to financial statements in a short period of time. We suggest PSAB delay the effective date of PS 1202 to allow preparers additional time.

Sincerely,

Phil Torchia, CPA, CA
Assistant Auditor General, Professional Practices and Quality Assurance

Wayne Morgan, PhD CPA CA CISA
Colin Semotiuk, CPA CA
Ian Sneddon, CPA CA
Office of the Auditor General of Alberta
Edmonton, Alberta

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 remeasurement 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 conservatism (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 than 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 elements¹. 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 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 realization 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 conservatism. 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. Conservatism 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
Controllershship Policy and Accounting Consultation

Province of Ontario’s Response to PSAB’s Exposure Draft: “Financial Statement Presentation, Proposed Section PS 1202”

Maureen Buckley

Assistant Deputy Minister and Provincial Controller

Office of the Provincial Controller Division (OPCD) | Office of the Comptroller General (OCG) | Treasury Board Secretariat (TBS)

7 Queen’s Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Maureen.Buckley@ontario.ca

Following is the Province of Ontario’s response to PSAB’s Exposure Draft on Financial Statement Presentation, Proposed Section PS 1202. Responses to the specific questions are provided below:

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

Ontario continues to have significant concerns with proposals included in the Reporting Model Exposure Draft, many of which were previously communicated to PSAB. We believe that our reporting model should reflect the longevity and going concern characteristics of a Canadian Government. The changes that are being recommended are, at the core, based on for-profit accounting frameworks (or IPSAS, which itself is based on IFRS).

We are concerned with removing the Net Debt indicator from the Statement of Financial Position. Net debt is a key indicator of fiscal sustainability for the government of Ontario (specifically net debt to GDP ratio) and its importance has been communicated to the public in the provincial budget and fall economic statement. Removing the net debt indicator from the Statement of Financial Position (and renaming it) will reduce the importance of this indicator to the public as it is no longer prominently displayed on the Statement of Financial Position along with other financial measures (accumulated surplus/deficit, financial and non-financial assets, and liabilities).

We are also concerned that the increased detail of the net debt calculation will come with real risks, both in understandability and in application. There has been a lot of effort put into helping users at all levels understand the concept of net debt. Not only has it become a key performance indicator, but it

is also a balance which is easy for users to identify, calculate, use, and understand. There is a risk that some of these benefits will be lost with the added complexity and removal from the Statement of Financial Position. Regarding application, we also have concern that the decisions of what to include or exclude from the net debt calculation may become subjective for preparers and auditors. If this becomes the case, it will result in a decrease in both reliability and consistency amongst users.

Lastly, Ontario continues to disagree with the introduction of “accumulated other” as a third component of net assets. Introduction of “accumulated other” will only create further confusion amongst financial statement users as to whether the primary accountability figure for revenues and expenses is surplus/deficit, surplus/deficit with unrealized remeasurement gains/losses, or surplus/deficit with unrealized remeasurement gains/losses and accumulated other. The financial needs of a public sector entity could be significantly impacted by amounts flowing through “accumulated other” with no inclusion in the budget and surplus/deficit.

Ontario generally has concerns about the technical accounting complexity being introduced by PSAB which will not be well understood by financial statement preparers and users. This additional complexity is not adding to the accountability being provided by the financial statements. Ontario would recommend that PSAB review its proposals considering the users of public sector entity financial statements, the public and legislator, and evaluate whether the proposals are really enhancing understandability and accountability before proceeding.

Ontario has similar concerns in relation to the changes PSAB is proposing to the conceptual framework which are communicated in a separate response letter to that Exposure Draft.

Ontario’s response below includes our continued concern on:

- a. Net debt; and
- b. Net Assets or Net Liabilities and its components

a. Net debt

Ontario continues to not support the proposal of PSAB to change the calculation and presentation of the net debt indicator and then to rename the measure. Net debt is an important measure for governments of its future revenue needs based on past events and transactions. The proposals are changing the indicator from a measure of future revenue needs to a measure of long-term liquidity. The measure is widely used for comparative purposes both between governments (both nationally and internationally) and over time. It is equally as important a measure for government organizations as it is for governments. Changing the calculation only introduces unnecessary complexity which will not be well understood by financial statement users. In addition, renaming the calculation and removing the calculation from the statement of financial position only serves to minimize its importance and reduce the accountability provided by such a measure.

Acceptance of this change by the broader stakeholder community including the media, credit agencies, etc. will be a significant challenge. If PSAB moves ahead with the proposed changes,

PSAB is strongly encouraged to undertake significant outreach and communication activities to these stakeholders to communicate this change, what it means and why it was made.

Change in calculation of net debt

The Exposure Draft (and the included Basis for Conclusions) includes discussion of the distinction between both a financial and non-financial asset and similar discussion for liabilities. Much of the discussion is very technical. Although, Ontario supports portraying the true meaning of net debt, changing the calculation will introduce greater complexity that will reduce understandability and increase variability in its application. This increased technical complexity will be a challenge for large public sector entities as it will be for those smaller in size. The technical complexity is illustrated by the extent of discussion required in the Exposure Draft (and Basis for Conclusions).

PSAB indicates a liability may be a financial liability and then become a non-financial liability in paragraph BC.100. It is unlikely stakeholders will understand why the net financial asset/liability measure of the entity has changed. It is questionable how the entity's net financial position has really improved. Determining whether certain performance obligations are settled through the use of financial or non-financial assets will be subjective. These changes will introduce challenges to the budget process as sufficient information may not be available to appropriately classify a liability as financial or non-financial.

Ontario does not consider the net financial asset/liability indicator to be sufficiently superior to justify significant effort required by preparers to understand and follow the proposed classification guidance and to set up the required system changes. Maintaining the current calculation of net debt as financial assets less liabilities allows for maintaining an overall measure of the financial needs of the public sector entity and the continued inclusion of the net debt indicator on the Statement of Financial Position. Net debt is well understood by the public sector community and provides a comparable measure between public sector entities in Canada as well as for governments internationally.

If PSAB moves ahead with the change in the calculation, the following specific issues will need to be addressed. The comments below demonstrate the additional complexity PSAB is introducing into the Handbook which Ontario does not consider to be beneficial for either the financial statement preparer or user community:

- The discussion in BC.090 in relation to restricted financial assets and their related liability is very technical and will be a challenge to implement. These examples should be expanded on and such guidance should be included in the standard for example in relation to paragraph .060 (e) rather than be included in the Basis for Conclusions.
- Similarly, PSAB should provide further clarity with examples of the categories of non-financial assets described as “any other assets not available for sale” in paragraph .060 (f).
- PSAB needs to consider the definition of a “financial performance obligation” and a “non-financial performance obligation”. These definitions note that these are a type of financial liability and a type of non-financial liability, respectively. According to the proposed conceptual framework paragraph 8.20 “A performance obligation is a type of economic obligation”. Paragraph 8.21 further notes that “Economic obligations are not liabilities unless they have all three characteristics of liabilities.” Accordingly, performance obligations are not liabilities

unless they have all three characteristics of liabilities. The following amendments are proposed:

- A **financial performance obligation** is a type of financial liability if it has all three characteristics of liabilities. A financial performance obligation is a performance obligation that is expected to be settled using financial assets.
 - A **non-financial performance obligation** is a type of non-financial liability if it has all three characteristics of liabilities.
 - Additional examples should be provided of revenue transactions that give rise to financial and non-financial performance obligations to further clarify this concept in the context of revenue transactions.
 - Further guidance should be provided to help distinguish whether a performance obligation is settled through a financial or a non-financial asset. An example of when this determination may not be clear based on currently provided guidance relates to a park pass purchased by a payor which provides the payor the right to access provincial parks for two years. In this situation, the unfulfilled performance obligation is to provide access to the park for the duration of the arrangement (the 2-year period). To do so the public sector entity will need to incur certain costs to settle the liability and therefore will use financial assets. From this perspective, this unearned revenue should be classified as a financial liability. On the other hand, it could be argued that the entity is providing the payor with a degree of access to a certain resource (a park) and therefore should be classified as a non-financial liability. Again, it is Ontario's position that this level of technical complexity and subjectivity do not serve well the financial statement preparers and users in the public sector.
 - Paragraph .085(c) states the following:
 - *“(New) Liabilities classified as non-financial liabilities are primarily of these three types:
 - (a);
 - (b); and
 - (c) non-financial performance obligation liabilities that will be settled by providing an individual or another entity with a degree of access (simple, exclusive, unrestricted, restricted, shared) to certain rights or resources over the term of the arrangement.”*
 - PSAB should clarify whether revenue transactions that include providing the payor with access to a good (e.g. TCA – land, building, etc.) or with a right to do something (e.g. right to drive, fish, hunt, to operate a health facility, etc.) over the term of an arrangement – will always give rise to a non-financial performance obligation.
 - PSAB should also clarify what is implied by “...a degree of access to certain rights or resources over the term of the arrangement”. What are some examples of revenue transactions being referred to in this paragraph?
- Generally financial instruments meet the definition of financial assets and financial liabilities. With the consequential amendments to FINANCIAL INSTRUMENTS, Section PS 3450, endowment contributions invested and restricted in perpetuity, should be presented as non-financial assets. Should two entities, one with significant endowments, really have the same net financial assets/liability measure (which would be the case as endowment assets are excluded from the calculation) as are the future needs of these two entities really the same?

Are there any other financial instruments that should be classified as non-financial assets/liabilities? If so, specific guidance should be provided.

Moving the indicator from the Statement of Financial Position

Ontario does not agree with relocating the net debt indicator, now proposed as “net financial assets or liabilities” from the Statement of Financial Position to its own Statement of Net Financial Assets or Liabilities. Ontario understands PSAB’s assertion that providing a separate statement to present and explain the indicator is intended to highlight it, and all statements are to be considered equally important. However, users currently understand that the net debt indicator is found on the Statement of Financial Position and their understanding is improved in that they can see all the assets and liabilities which flow into the calculation. This is possible with the new statement as well, but the presentation is not as streamlined and thus there is less understandability. Further, Ontario believes that by moving the indicator to a separate statement decreases its prominence. By PSAB asserting that all statements are of equal importance does not make it so for financial statement users. Financial statement users include the public and legislators. Financial statement users are not all accountants. Generally, users understand the Statement of Financial Position which shows the position of the entity at a point in time and the Statement of Operations which should show the financial performance and budget for the prior period of time. PSAB’s introduction of additional statements and additional detail will not change this. PSAB even places a greater prominence on the Statement of Financial Position through its proposals by basing the definition of revenue and expense solely on changes in assets and liabilities. Maintaining the net debt indicator and continuing to highlight its importance will continue to hold governments and other public sector entities responsible for the measure. Moving the measure, changing its calculation, and its name only serves to minimize its importance and reduce the accountability provided by such a measure. Maintaining the net debt indicator on the Statement of Financial Position alongside other key measures, such as non-financial assets, will assist entities in discharging their accountability responsibilities and highlight the importance of the measure which is well understood and accepted in the public sector community.

Changing the name of the indicator

Ontario does not agree with renaming the “net debt” indicator to “net financial assets or liabilities”. Net Debt is an established and widely used indicator in the public sector, certainly amongst governments (both nationally and internationally), and is a key indicator of fiscal sustainability. Measures such as net debt as a comparison to GDP is used widely in evaluating the finances of senior governments. The measure is of equal value to other public sector entities. Changing the name to a term more similar to terminology used in the Not-for-Profit sector appears to be a move to appease the requests of that community. It is at the expense of the broader public sector community in Canada in which net debt is well known and well served. Regrettably the changes being proposed by PSAB are making PSAS more comparable to standards for Not-for-Profits and the unique aspects of PSAS are being removed. It is changing the indicator to a measure of long-term liquidity. Changing the name (in addition to calculation) will have implications beyond financial statement reporting. It is used by media, credit agencies, other analyst communities, etc. If PSAB moves ahead with the change in the name of the indicator (and calculation), PSAB is strongly encouraged to undertake significant outreach and communication activities to reach the broad spectrum of stakeholders to communicate this change, what it means and why it was made. Governments may decide to continue to calculate and report net debt outside of financial statements thereby reducing the value of financial

reporting. PSAB through their proposals are thereby reducing the value and importance of financial statements to the public and legislators. Ontario does not consider it appropriate to change the calculation and name without reaching out to the broader community and really understanding the consequence of their proposals.

b. Net Assets or Net Liabilities and its components

Ontario continues to disagree with not including equity/net assets as an element. Ontario also continues to have concerns with the introduction of components of equity/net assets which result in parts of financial performance being presented outside of surplus or deficit. The Statement of Operations is a key statement for public sector entities in discharging their accountability. Flowing transactions through separate components of equity/net assets (with or without recycling) reduces accountability, makes determination of performance uncertain and increases complexity for financial statement users.

Introduction of “accumulated other”

Ontario continues to disagree with the introduction of “accumulated other” as a third component of net assets, with the other two being “accumulated surplus/deficit” and “accumulated unrealized remeasurement gains/losses”.

Currently for governments it is clear financial performance is surplus/deficit. With the adoption of FINANCIAL INSTRUMENTS, Section PS 3450, clarity of financial performance will be reduced with the introduction of the Statement of Remeasurement Gains/Losses. The creation of multiple bottom lines was a point of discussion with PSAB when PS 3450 was approved. PSAB approved PS 3450 with consideration that revenues and expenses on the Statement of Remeasurement Gains/Losses are recycled through the Statement of Operations. All revenues and expenses eventually flow through surplus/deficit. The Reporting Model Exposure Draft’s Basis for Conclusions mentions the importance of avoiding multiple bottom lines to avoid confusion but the introduction of “accumulated other” will only create further confusion amongst financial statement users as to whether the primary accountability figure for revenues and expenses is surplus/deficit, surplus/deficit with unrealized remeasurement gains/losses, or surplus/deficit with unrealized remeasurement gains/losses and accumulated other. Enhanced confusion amongst financial statement users is not aspirational. There is no requirement to present budget comparisons with respect to remeasurement gains/losses or “accumulated other”, despite framing the components as consisting of revenues and expenses. There is no mention of recycling associated with amounts recorded on “accumulated other”. Not only will there be confusion regarding performance, but accountability will be reduced.

It is also very unclear what events and transactions will be recorded as “accumulated other”. Per the Exposure Draft, only PSAB can determine what transactions would be recorded as accumulated other and it would be for rare circumstances. PSAB has not provided criteria as to when this component would be used, opening room for subjectivity and arbitrary use. Any amounts recorded to “accumulated other” will create a deviation from IPSAS as IPSAS do not include a similar concept. Additionally, illustrative examples such as Appendix D of proposed Section PS 1202 present an item that is “similar to an endowment” as a non-financial asset and as “accumulated other”. However, there is no standard on endowments in the PSA Handbook. The accounting for endowments is yet to be

determined. Illustrative examples should be based on existing standards, rather than potential standard which have yet to be developed.

PSAB indicates the intention is to address potential revenues and expenses which should not be recognized in surplus and deficit. Ontario questions what revenues and expenses a public sector entity should not be accountable for and which should not be budgeted for. The financial needs of a public sector entity could be significantly impacted by amounts flowing through “accumulated other” with no inclusion in the budget and surplus/deficit. Governments may need to prepare budgets on a non-PSAS basis to capture all their revenues and expenses. By virtue of being excluded from the Statement of Operations, and separated from assets and liabilities, the “accumulated other” category exists outside of the elements identified in the conceptual framework. Ontario considers the true nature of an “accumulated other” account to be abstract and will add more confusion in the standard setting process and amongst financial statement users. Regrettably, true accountability of public sector entities will only be achieved going forward through preparation of budgets on a non-PSAS basis.

Equity/net assets as being an element

Consistent with our response to the Conceptual Framework Exposure Draft, Ontario continues to disagree with not including equity/net assets as an element. PSAB seems to equate equity with ownership interest. PSAB argues that because share capital is not a common occurrence in the public sector, equity or net assets is not an element. Ownership interest, while a component, is not the sole source of equity. PSAS currently allow certain transactions to be recorded directly to equity/net assets without flowing through the Statement of Operations. Transactions are recorded directly to accumulated surplus/deficit, remeasurement gains/losses and share capital. It is unclear how transactions can be recorded directly to a residual difference or “plug” amount. It is unclear how a “plug” can have components. It is unclear why PSAS should deviate from IPSAS which has an equity element in ownership contributions/distributions. Including a separate equity/net asset element allows the Board to create standards that show a true depiction of entities’ activities as direct entries to equity only when they relate to ownership transactions that are not appropriate to record through the annual deficit or surplus thus allowing for greater transparency, structure and discipline.

In addition, PSAB has indicated in the Basis for Conclusions (BC.145) that in determining whether a transaction is “issued share capital” or something else, such as a government transfer or a loan, the substance of the transaction must be carefully reviewed. PSAB is encouraged to provide further guidance.

Other matters previously communicated to PSAB that are still of concern to Ontario are as follows.

Carryforward concerns

Flexibility in budget to actual presentation	The budget is widely read by many stakeholders and is used to communicate fiscal and/or economic policy decisions. In the proposed reporting model, any budget to actual comparisons are based on the classifications in the financial
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	<p>statements. Flexibility should be allowed in the financial statements for the government to present actual amounts as compared to budget based on the presentation used in the budget document. This is to increase understandability amongst users as the budget is the initial document approved and the one that some users will be most familiar with and will want to use as their benchmark to compare against actuals.</p> <p>This will increasingly be a consideration if PSAB goes forward with removing some revenues/expenses from the Statement of Operations. Budgets will need to be prepared on a more inclusive basis than will be required under PSAS.</p>
PS 3450 Financial Instruments	<p>In completing its conceptual framework, the Board should reflect on the appropriateness of its standard related to accounting for financial instruments as it does not align with measurement based on historical cost, resulting in a need for remeasurement gains and losses to be recognized outside of accumulated surplus/deficit. Concern over the use of fair value in Section PS 3450 was one of the primary issues raised by the Joint Working Group and continues to be a concern of governments. The use of fair value reporting results in reduced accountability, does not reflect the long-term nature of governments and their investments, and hinders the measurement of financial performance.</p>
PS 3410 Government Transfers	<p>The Board should clarify that capital transfers received are earned over the use of the asset and not on construction of the asset. This supports better alignment with balanced budget legislation and reflects the substance of the funding transaction. Section PS 3410 was also an area of primary concern raised by the Joint Working Group.</p>

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

The Exposure Draft indicates an effective date of April 1, 2024 for Section PS 1202 which according to the Basis for Conclusions would allow 18 months for implementation. The reporting model is to be adopted retroactively with restatement. PSAB indicates that because its proposals affect presentation only, they should be more straightforward to implement than changes affecting recognition and measurement.

Ontario, as indicated in response to the prior question, strongly recommends PSAB revisit aspects of its proposed reporting model before proceeding. If PSAB chooses to proceed, Ontario considers an effective date of no earlier than April 1, 2026 to be more acceptable for the following reasons:

- PSAB typically provides two budget cycles (two years) to prepare for a new standard. Although proposed Section PS 1202 will affect presentation only, implementation will take significant effort given the need for:
 - assessment,
 - policy/guidance development and changes in existing policies/guidance,
 - training and education,
 - system changes, and

- determination of other potential impacts.

Each of these steps will take considerable time and effort. Governments are very large entities with many ministries, consolidated organizations, systems and processes. Assessment of balances and transactions to determine appropriate classifications, education of ministries and organizations of these new requirements, and reviewing and changing existing policies takes time. In addition, this work needs to be reviewed by our internal and external auditors.

- Another area of significant effort relates to the proposed changes associated with the net debt indicator. The Province will need to decide how to proceed with this change. Consideration will be given to continuing to calculate and report net debt but outside the financial statements. If not, users and stakeholders (i.e. preparers, public) will need to be educated on and understand how the formula has changed, including understanding which specific assets and liabilities are now excluded and why. This will be a significant and lengthy endeavor given the various complexities that can arise. Furthermore, the change in name and location of the indicator will have to be communicated, and will involve an extensive search of which documents outside the financial statements reference “net debt”, as it is a common key accountability figure used (i.e. references to the “Net Debt to GDP ratio”). The change in the name, location and calculation of the net debt indicator will also require legal assessment and potential changes. For these reasons, consideration will be given to continue to calculate and report net debt but outside the financial statements under PSAS.
- The retroactive transitional provision with restatement will require all long-term historical tables to be reviewed and restated where necessary. This will be time consuming considering the work required to reclassify historic balances under new classifications.
- The Exposure Draft is accompanied by significant consequential amendments which also need to be reviewed and assessed as part of the implementation process and may affect existing policies and have legal implications.

PSAB is proposing the Conceptual Framework take effect immediately when issued. These changes will need to be assessed to ensure appropriate implementation. This will require effort by the Province to ensure its implementation. In addition, the Province will be busy with implementing other standards in fiscal years 2022-23 and 2023-24. This set of reporting model changes will therefore not be the only changes the Province will be working on implementing over the adoption period. Similarly, there are other standards under development by PSAB which will require input and research over this period of time (e.g. Employment Benefits).

To help with implementation of the reporting model changes if PSAB chooses to proceed, PSAB is encouraged to provide a document noting the changes in the conceptual framework and the reporting model. The Exposure Draft provides information about which paragraphs are new or partially changed, however, this information will not be retained in the published material.

Ontario also recommends the conceptual framework changes be adopted at the same time as the reporting model changes being proposed by PSAB due to the interaction between the two sets of

sections. It is not clear why such conceptual framework changes should be implemented part way through a fiscal year by a public sector entity.

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.



June 30, 2021

SENT ELECTRONICALLY

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

Dear Mr. Puskaric:

We are submitting these comments in response to the callout for feedback on proposed changes to standards that affect Public Sector reporting and Government Not For Profit Sector reporting. Specifically, we are making comments on the three documents listed below:

1. The Exposure Draft of a proposed new conceptual framework, "The Conceptual Framework for Financial Reporting in the Public Sector";
2. The Exposure Draft of a proposed new reporting model, "Financial Statement Presentation, Proposed Section PS 1202"; and,
3. "Government Not-for-Profit (GNFP) Strategy Consultation Paper II".

Background on the First Nations Market Housing Fund

The First Nations Market Housing Fund (the "Fund") was established on March 31, 2008, through an Indenture of Trust with the purpose to facilitate the availability of financing for, and the accessible supply of, market-based housing in First Nations communities. The Fund also helps to create the capacity in First Nations communities to become self-sufficient in developing and sustaining market-based housing, thereby contributing to the social welfare and civic improvement of First Nations communities and their residents. The Fund operates on a not-for-profit basis and the beneficiary of the Fund is Her Majesty the Queen in right of Canada.

On April 28, 2008, the Fund received \$300 million contribution from Canada Mortgage and Housing Corporation (CMHC) on behalf of the Government of Canada. The Funding Agreement to the \$300 million provides additional direction of the Fund's not-for-profit activities, reporting obligations, permitted use of funding and duties of Trustees. The Fund has not received any other funding since then. As per the Funding Agreement, no amount of the contribution is expended on programs that have not been approved in accordance with the Trust Indenture (specifically, Credit Enhancement and Capacity Development programs as well as administrative expenses as outlined in the annual business plan). All income, gains, accretions, and all money or other property endowed or contributed in cash or in kind to the Fund, after expenses and other proper outlays, are accumulated in the Fund to provide for future non-profit activities of the Fund.

The Fund is a User of First Nations Financial Statements

On an annual basis, the Fund conducts annual reviews of financial statements for First Nations that have partnered with the Fund. The Fund has reviewed the annual audited financial statements of over 250 First Nations across Canada, many for multiple years. In our financial reviews, we apply numerous financial ratio calculations such as working capital, debt coverage ratio, own source revenue as a percentage of total revenue, to name a few. Our role is to determine if First Nations can safely guarantee home loans while pursuing their goals and meeting their other financial obligations. Changing the financial reporting standards for the public sector will have an impact on the First Nations financial statements, that we review each year.

The Fund is a Preparer of GNFP Financial Statements

The First Nations Market Housing Fund prepares its financial statements in accordance with the rules established for government not for profit organizations. The Fund has adopted the series 4200 standards of PSAS. Our feedback on the proposed new reporting model and the GNFP strategy paper are based on our experience as a government not for profit organization.

Feedback on Exposure Drafts and Strategy Papers

1. The Exposure Draft of a proposed new conceptual framework, “The Conceptual Framework for Financial Reporting in the Public Sector”.

We reviewed this exposure draft from the perspective that we are a user of Financial Statements. On an annual basis we review the audited financial statements from First Nations governments, and we analyze financial ratios that are relevant to the Fund. Two issues that we would like to highlight and recommend changes are as follows:

Issue with Terminology:

Section 2.42 states that “the Constitution recognizes and affirms existing Indigenous and treaty rights of the Indian, Inuit, and Metis people of Canada”. Although the term “Indian” is indeed used in the Canadian Constitution and some other pieces of legislation, it should be acknowledged that it is offensive to many and is most often replaced with the term “First Nations”.

Issue with Capital Transfer Reporting:

As discussed in the “Review of Section PS 3410” from BC8.29 to BC8.31, difficulties experienced by PSAB in treating capital transfers is understandable. However, from a user’s perspective, it is often challenging to isolate revenues related to the purchase of capital assets from the audited financial statements especially when supporting schedules are not provided or lack enough detail. When comparing multiple financial statements and/or analyzing financial performance from normal operations, it would be more beneficial if the reporting organization recognizes revenue over the useful life of the related asset as opposed to when the related asset is acquired or built. We would recommend that a guideline be set to **require** reporting capital transfer revenue over the useful life of the asset rather than give the preparer flexibility on how they report this.

2. The Exposure Draft of a proposed new reporting model, “Financial Statement Presentation, Proposed Section PS 1202”.

We reviewed this exposure draft from the perspective that we are a preparer of Financial Statements. The Fund was established, by Canada, through an Indenture of Trust as well as a Funding Agreement. As per the Funding Agreement, no amount of the contribution is expended on programs that have not been approved in accordance with the Trust Indenture. If the Fund is ever to be terminated, in accordance with the Indenture of Trust, all assets of the Fund will be transferred back to the beneficiary or whoever the beneficiary may appoint. For that we reason, we do not record any net assets for the Fund.

Revenue Recognition:

The Fund prepares its financial statements in accordance with Public Sector Accounting Standards (PS) including the use of the standards for government not-for-profit organizations (PS 4200 to PS 4270).

The Fund follows the deferral method of accounting for contributions. Initial contribution and subsequent investment income are deferred and recognized as revenue in the period in which the related expenses are recognized.

As the Fund did not receive any other unrestricted funding since inception, the Fund has never reported a surplus or deficit, which would have resulted in a net assets position.

Issue with Reporting Accumulated Remeasurement Gains and Losses:

On March 31, 2021, the Fund purchased equity investments for the first time. In accordance with PS 3450, these equity investments are measured at fair value and subsequent changes to the fair value are reported in the Statement of Remeasurement Gains and Losses. It should be noted here that the Fund did not apply PS 3100, which would have provided a more consistent way to recognize the unrealized gain or loss via deferred contribution instead. This is because PS 4210 is silent on the asset side of the transaction (i.e., there is no reference to PS 3100), and even if the Fund wished to apply PS 3100, the \$300 million contribution would have been scoped out as it should be considered a government transfer under PS 3410.

Therefore, at March 31, 2021, the Fund had accumulated remeasurement losses totaling \$112K. The issue here is that under the current and proposed PS, the accumulated remeasurement gains or losses are reported under an organization’s net assets.

This can create some confusion and mislead the readers about the availability of the Fund’s assets (e.g., the fluctuations in the market value of the Fund’s equity investments are not subject to any restrictions). Although the Fund can make some additional disclosures about the restrictions in its net assets as per PS 4200, this style of presentation is still a bit odd for the Fund to be in a net assets position just from changes in the market value of some of its investments.

Fund’s Solution:

To get around this issue, the Fund reported its accumulated remeasurement losses at March 31, 2021 under liabilities instead. Also, because of the unique nature of the Fund (i.e., no possibility of accumulating net assets), we would request that this approach be considered as a customization to the implementation of Option 2 of the GNFP Strategy Consultation Paper.

3. "Government Not-for-Profit (GNFP) Strategy Consultation Paper II".

We reviewed this exposure draft from the perspective that we are a preparer of Financial Statements.

It was noted that a lot of preparers had issue with the definition criteria for determining if an organization was a Government Not for Profit organization. In many cases the criteria that the organization has counterparts outside the public sector was the criteria that was not met.

The Fund also has an issue with this definition criteria. Because of the unique nature of the Fund, it is difficult to find a true private sector counterpart. The Fund has two products that it offers to First Nations, which are capacity development funding and for those that qualify, a Credit Enhancement guarantee (a 10% backstop guarantee on a First Nation's guarantee on home mortgages in their community). For these unique services, it is difficult to find private sector counterparts that offer all of the services (as one entity) like the Fund. As per 064., PSAB is planning on keeping the current definition of GNFP, but the impact of applying the definition under the three options varies; however, the Fund would like to note that if the GNFP definition does not change, then organizations that do not meet the criteria to have a private sector counterpart will still be unable to access customizations available to GNFPs under Option 2.

As such, the Fund is hoping that PSAB will provide more guidance on what it entails to have a private sector counterpart (and to what degree) or remove this specific criterion altogether.

In general, the Fund is in favour of implementing Option 2 and will be keen to take part in incorporating the current PS 4200 series and developing customizations for GNFPs such as the one mentioned above, which would allow us to continue reporting the accumulated remeasurement gains/losses in the liabilities section of our Statement of Financial Position.

Should you have any questions or comments regarding our feedback, or wish to discuss further, please feel free to contact our Director, Finance and Administration, Mr. Travis Seymour, CPA, CGA, MBA, CAFM.

Yours truly,



Deborah Taylor
Executive Director

c.c. Tae Kim, CPA CA, Senior Financial Analyst, FNMHF

June 22, 2021

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

Dear Michael:

Re: PSAB's Reporting Model Exposure Draft

The University of Alberta (UofA) is pleased to be able to provide its comments to the Public Sector Accounting Board (PSAB) on the Reporting Model Exposure Draft.

The UofA overall agrees with the proposed new financial presentation model. The university also supports the proposed effective date of April 1, 2024. The UofA is in agreement with this option for the following reasons:

1. The elimination of the net debt/asset indicator from the face of the statement of financial position will assist the users of the UofA's financial statements. The net debt/asset indicator is not a concept easily understood by the layman user of financial statements and the removal of this to a new statement is an appropriate move.
2. The UofA supports the placement of all assets (financial and non-financial) into the same section of the statement as outlined in paragraphs .045 - .072. Of particular note the inclusion of investments held on behalf of endowments as a non-financial asset (paragraph .069) is a position the university has been championing ever since its implementation of PSAS in 2012.
3. The UofA agrees with the concept of a non-financial liability as defined in paragraph .084. The concept of a non-financial liability is a key concept for the university as it recognizes the social requirement of the university to use its non-financial assets in the delivery of public services. It will make its financial information easier for the users to understand.
4. The ability to break out the components of net assets is another key concept the UofA agrees with (paragraph .093). A large net asset number without context would imply that the university has accumulated a large number of surpluses which could be available for re-investment into programs. The ability to break out components will help clarify the financial position of the university to the users of its financial statements.
5. One item that is still a concern is the concept of remeasurement gains. This concept actually has a negative impact on the university. The fact that only realized gains are recognized as income implies that unrealized gains cannot be used to fund the spending activity of the university's endowments. This has led to accounting standards driving investment decisions the university makes – which is not appropriate. The university believes that the option should exist to entities to either recognize the unrealized gains or losses as income or flow these amounts through the statement of net assets directly. This would alleviate an issue we have had with auditors over the past three years. (paragraph .140 and other related paragraphs)
6. The UofA is comfortable with an April 1, 2024 effective date and would actually support an earlier effective date than this.

Thank you for the opportunity to comment on this paper. Please contact me directly should you have any questions on the comments provided.

Sincerely

Brian Boytang
Director, Financial Reporting
Finance, Procurement and Planning
University of Alberta
780-492-0878
bboytang@ualberta.ca

cc. Martin Coutts, Associate Vice-President, Finance, Procurement and Planning

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

May 26, 2021

Dear Michael Puskaric,

**RE: Letter of Support for Intact Centre for Climate Adaptation Submission
Exposure Draft – The Conceptual Framework for Financial Reporting in the Public
Sector and Exposure Draft – Financial Statement Presentation, Proposed Section
PS 1202**

The Municipal Finance Officers' Association of Ontario (MFOA) is writing to provide comments in support of the submission by the Intact Centre for Climate Adaptation to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

MFOA, on behalf of its members, recognizes the value in reporting on natural assets. We feel that the unilateral exclusion of natural assets works against the goals of asset management. While not all municipalities own or control natural assets, nor are all municipalities prepared to value and report on natural assets, we believe that the option should be available to those who are ready to include natural assets in their asset management plans as well as their financial statements.

Provincial objectives to address climate change necessitates that municipalities begin monitoring and maintaining natural assets under their control. The ability to formally include natural assets within asset management plans and include valuations within audited financial statements provides improved transparency and reporting. Increased concern and scrutiny by investors over environmental, social and governance (ESG) issues are likely to have a greater impact on debt issuance costs in the future. From an environmental perspective, investors are seeking increased evidence that they are not profiting from environmental degradation, and that they are investing in entities that are responsible environmental stewards.

We support the Intact Centre's request to provide municipalities and other forms of public entities the option of including natural assets within their financial statements.

To that end, we request that PSAB consider developing valuation and reporting models that may be used by public entities for their natural assets.

Should you wish to follow up on this letter, please contact Donna Herridge, Executive Director for MFOA.

Sincerely,

A handwritten signature in purple ink that reads "Trevor Pinn".

Trevor Pinn, President
Municipal Finance Officers' Association of Ontario

cc. Donna Herridge, Executive Director; Municipal Finance Officers' Association of Ontario (donna@mfoa.on.ca)



June 30, 2021

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

Re: Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

Dear Sir:

Thank you for the opportunity to provide feedback on this Exposure Draft. We hope our opinion, based on our experiences and observations within our role as a legislative audit office, will provide PSAB with useful feedback.

While we have attached our detailed comments in the appendix to this letter, we wish to highlight our concerns and disagreement with the proposed changes affecting net debt. In New Brunswick net debt is a key reporting element and an important government public accountability indicator.

We disagree with renaming net debt as we believe it will cause unnecessary stakeholder confusion. We are also concerned about the proposed location for net debt in the financial statements. While location is a secondary consideration, it is still an important aspect in financial reporting:

As outlined in the appendix, we encourage PSAB to consider different reporting options and disclosures for senior governments, separate from other government organizations, regarding net debt.

We are pleased to note we agree with many other areas of the proposed standard and have documented only our more significant areas of concern in the following appendix.

Sincerely,

A handwritten signature in cursive script that reads "Janice Leahy".

Janice Leahy, CPA, CA, CIA
Acting Auditor General

APPENDIX***Question #1: Do you agree with the proposed new financial statement presentation standard?***

As mentioned in the covering letter we agree with many other areas of the proposed standard and have documented only our areas of concern in this appendix.

Use of term "Net Financial Liabilities" and related changes within the Statement of Net Financial Assets/Net Financial Liabilities

Net debt is a very important financial measure for senior governments. We believe senior governments have significant and different responsibilities and accountabilities to the citizens it represents compared to other government organizations. Net debt has been a topic discussed extensively both in our annual *Reports of the Auditor General*, during our Province's Public Accounts Committee, and in the media. The need to reduce New Brunswick's net debt and set targets for net debt reduction has been a consistent message of our office over the past decade. We believe the term has familiarity within the public and allows taxpayers to better understand the concerns our office has reported.

We believe it to be a critically important term for senior governments given its historical use and consequently, public understandability. Non-senior government entities within the government reporting entity also could consider the net debt indicator less impactful given their budgets are generally approved and allocated by the senior government.

We urge PSAB to reconsider its proposal to rename net debt and we question whether in this regard an exception should be made for the financial statements of senior governments given the broader set of users of senior government financials who have grown to understand and can relate to the net debt terminology. We feel this better fits the needs of paragraph 3.09; "*Public sector financial reporting information is directed at meeting the needs of a wide range of users, with the public and its elected or appointed representatives being the primary users.*"

Our office also has concerns with the removal of the requirement to report the net debt indicator on the statement of financial position. In renaming the indicator and moving it to a subsequent statement, we disagree with PSAB's perception that this would increase the prominence of the indicator. We also believe that users may fail to see the link between the net debt indicator and the statement of financial position should it no longer be required to be presented on this statement. We prefer net debt be presented on the statement of financial position.

Statement of net financial assets or net financial liabilities (paragraph 105-185)

While we have no concerns with much of these proposed paragraphs, we would reiterate our concerns over the removal of the net debt indicator from this statement, as previously highlighted.

Although we are concerned the term 'Accumulated Other' may not be clear and understandable for users, we did take comfort in reading that this area is largely determined by PSAB. We agree that entities should not be using this terminology and presentation without prescription. We will assess and provide further comment when situations arise where use of this standard is prescribed by PSAB.

Option to report the reasons for the change in net financial assets or net financial liabilities (paragraph .152-.153)

We disagree with PSAB's optional guidance on reporting reasons for the change in net financial assets/liabilities within the statement. While we understand that the change in terminology from net debt to net financial liabilities may cause confusion for readers, we believe that adding notes to the face of the statements will create additional confusion. Typically, users are familiar with comments on financial indicators or financial statement accounts in an accompanying management discussion and analysis (MD&A) or the notes to the financial statements, respectively. We would prefer to see this information continue to be reported in either source to avoid further precedent of including supporting reasons outside of these sources.

In addition, we disagree with the optionality aspect for the statement as it will reduce comparability between jurisdictions. Inconsistencies in reporting this information would reduce comparability across the sovereign financial statements.

Materiality (0.31)

We disagree with PSAB's view that an entity can choose to omit specific presentation if the information is not deemed material. While we understand conceptually this aims to simplify the amount of information presented in the notes to the financial statements, we feel this standard is overly vague as to what constitutes an immaterial disclosure. We are also concerned with the optionality of some disclosures which were previously required and that it will decrease comparability of financial information across jurisdictions and between public sector entities. We believe this standard also becomes increasingly difficult to apply for qualitative disclosures which may be considered material to some users and immaterial to others.

We would like to see more guidance as to what the characteristics should be considered in assessing whether a required disclosure is immaterial. In addition, we considered whether this standard is contradictory to Paragraph .035, which states; "*Accounting policies should be applied consistently from one period to another*". We would like to see increased clarification on the application of disclosures that may have been material in the prior fiscal year, but perhaps are immaterial in the current fiscal year, or vice versa.

Aggregating (.032)

We disagree with PSAB's proposed guidance for aggregation of immaterial items with similar characteristics. Similar to the materiality guidance, we feel this standard is vague in scope. We believe improvements to the note could include mention of what classification of accounts can be aggregated, whether this can take place in the notes or the face of the financial statements, and what characteristics of the population of items should be considered when assessing whether aggregation is appropriate.

Change in definition of non-financial assets and liabilities

While we agree with the proposed definition of non-financial assets, we have concerns with shortcomings in the definition of non-financial liabilities. Namely, we are concerned instances may arise in which a liability may not fit the definition of either financial or non-financial liabilities. We have concerns that the current proposed definition may cause confusion as to the applicability for some existing liabilities, or unintentionally create new liabilities. We would support a more simplified definition, like that of non-financial assets. We believe that doing so will enhance the users understanding and aide in comparability between jurisdictions.

Use of Amended Budgets

We noted paragraph 6.31 states that "there may be rare circumstances where an amended approved budget may be more useful for accountability purposes". These circumstances are further described in the proposed PS 1202.

Given there are no restrictions on what period within the fiscal year the two instances for an amended budget can be applied, a government or governing body who have been newly-elected towards the end of a fiscal year could implement an amended budget. We believe this would diminish the integrity and accountability of the budgeted information. We question how representative an amended budget would be and if this furthers transparency regarding public accountability for past decisions.

As the budgetary process for senior governments likely differs in scope, complexity, and public scrutiny compared to smaller agencies, we also question whether enough justification exists supporting the need for this change for senior governments. We believe PSAB should consider separate guidance for senior governments and other agencies for use of amended budgets.

Line items and subtotals (Paragraph .037-.038)

We were pleased to see PSAB has provided additional guidance on when an entity can present additional line items, headings, and subtotals. We have concerns that the guidance could be overly vague and will be open to subjective interpretation. We would like to see PSAB provide further

clarification in the standard. This further guidance should help ensure greater consistency and comparability across public sector entities.

Share capital (Paragraph .146-.150)

We disagree with the addition of share capital as a dedicated section within the proposed standard. While we acknowledge that some equity arrangements exist within the public sector, these are largely uncommon given structures where a government agency possesses shares of another government agency could be inappropriate to the role of the public sector, especially for senior governments. As such, we question whether this inclusion perhaps has unintended consequences by offering guidance for a capital structure often atypical or inappropriate for senior governments or large government agencies to enter.

In addition, we also question whether this standard is aligned with guidance in the proposed Conceptual Framework. In paragraph BC8.37 of the proposed Conceptual Framework's supporting Basis for Conclusions, PSAB notes that ownership contributions and distributions were uncommon in the public sector and including them within the Conceptual Framework would be giving them "undue prominence", which we believe supports our aforementioned position on its appropriateness within PS 1202.

Disclosing non-compliance with financial authorities (Paragraph .202-.204)

In paragraph .203, we noted the terminology has been updated to 'financial authorities' from the use of 'legislative authorities' from PS1201. While we agree that non-compliance with financial authorities should be disclosed, we question whether instances of non-compliance with legislative authorities, not necessarily financial in nature, would no longer need to be disclosed. We would like to see further clarification from PSAB or further directives in the standard as to what types of non-compliance with authorities would be expected to be reported.

Disclosing risks and uncertainties (Paragraph .205-.206)

We noted new guidance was added regarding the disclosing of risks and uncertainties within the notes to the financial statements. While we have no concerns with the spirit of this guidance, we do have concerns with the lack of clarity and expectation of the types of risks PSAB has intended to see disclosed.

Paragraph .206 notes the requirement to disclose "risks and uncertainties that could affect an entity's financial position or changes in financial position", while also recognizing "individual standards set out the disclosure requirements for various risks and uncertainties". We believe it becomes unclear as to what types of risks, outside of specific standards guidance, should be disclosed and what considerations should be made when assessing whether a risk is material for disclosure outside of an applicable standard. We would like to see specific examples or

considerations that PSAB believes might occur that an entity should consider disclosing. Doing so would also mitigate the risk of over-disclosure in the notes, preserving clarity and understandability for users.

Question #2: Do you agree with the effective date of April 1, 2024, to implement the presentation standard, Section PS 1202.

We have no concerns with the current proposed effective date of April 1, 2024. We feel this date provides sufficient time for entities who have previously adopted PS1201 to prepare their budgets and reporting in compliance with the new measurement, recognition, and presentation requirements within the proposed standard.

Our opinion on this question however, is influenced by the eventual date the finalized standard is commissioned by PSAB. There has been no requirement for some entities to adopt PS1201 until April 1, 2022. As such, PSAB may wish to re-evaluate how feasible and appropriate a two-year adoption period would be for entities who have not yet adopted PS1201. A later-date could potentially be more all-encompassing for smaller entities who do not have the resources of Senior Governments or Crown Agencies to adequately prepare for this transition within two fiscal years.



June 30, 2021

Michael Puskaric
Director
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2
info@psabcanada.ca

Re: “The Conceptual Framework for Financial Reporting in the Public Sector” and
“Financial Statement Presentation, Proposed Section PS 1202” -- Consultation Response
to Exposure Drafts

Dear Mr. Puskaric,

Thank you for this opportunity to comment on the above noted Exposure Drafts and the PSAB’s continued efforts to engage key stakeholders in changes to Public Sector Accounting Standards.

Overall, the City feels that the proposed changes represent a much needed update to the Conceptual Framework and supports the exposure draft with exceptions noted in the comments below. The changes add clarification to concepts that were previously broadly defined or missing from the framework, allowing for more consistent application of professional judgement in the employment of the accompanying accounting standards. The changes also make the framework more future ready and adaptable to the rapidly changing global environment. Similarly, the City is supportive of the changes to the Financial Reporting Model, again with exceptions outlined in the following paragraphs; the most notable exceptions or questions pertain to the Statement of Net Financial Assets/Net Financial Liabilities.

[Conceptual Framework Comments](#)

Sections 2.13-2.14 and 3.29-3.32 Public Sector Accountability

These sections contemplate public sector accountability reporting outside of the financial statements, including reporting of non-financial information and setting and communicating measurable goals. The City is seeking clarification from PSAB if these sections are intended to provide general guidance only or if PSAB is contemplating future standards or guidance that extend to non-financial reporting (i.e. performance measures, societal well being, productivity, stewardship, etc.). This type of reporting has fit within the legislative framework for municipal governments as established by senior level governments as well as within the purview of municipal Councils. Outside of the high level direction that these non-financial aspects form an integral part of public sector accountability reporting, the City is concerned that the guidance on non-financial reporting may not be an appropriate fit within the scope of public sector accounting standards.

Sections 6.28-6.31 Comparing Actual Financial Performance to Budget

The City agrees that reporting actuals against the plan, or budget, is an important part of public sector accountability and supports the continued presentation of budgets in public sector entity financial statements. We are, however, seeking clarification from PSAB on the application of the term “originally approved budget”. Municipalities often approve multi-year operating and capital budgets, and then verify the budget annually when the property tax rates are set. Multi-year budget setting is critical for municipalities to plan the use of their resources in a fiscally responsible manner, to understand how decisions made today affect finances into the future (i.e. impact of Capital on operating and tax levy) and assists with continuity of services and programming through municipal election years. However, by the third and fourth years of the multi-year budgets, the comparability value of actual to the first released plan is significantly reduced as a result of changed circumstances such as service level adjustments, funding changes from other levels of government and so forth.

Currently, the City and our auditors have agreed that for the Statement of Operations, the “originally approved budget” is the one annually adjusted and approved by Council when the property tax rates are set in April rather than using the initial amounts established as part of the four-year budget. Capital budgets are those that are originally approved in the four year plan plus carry forwards from the prior year. Other amendments to budgets that occur throughout the year are not considered to be part of the “originally approved budgets” that are reflected in the City’s financial statements. The City is seeking greater clarity on the acceptable application of “originally approved

budgets” when multi-year budgets are used and asks the PSAB to consider providing direction in this area.

Recognition Exclusions

The City agrees that the exclusion of the recognition of inherited natural resources, inherited crown lands, works of art and historical treasures and inherited/developed intangibles is a standards level decision and supports moving these exclusions from the conceptual framework to the standards level (PS 1202 and/or PS 3210).

Financial Reporting Model Comments

1. The City of Edmonton agrees with many of the changes in the financial reporting model.

The proposed Statement of Financial Position is closer to the more traditional look of a “balance sheet”, making it easier for users of the financial statements to understand and compare. We also support the inclusion of the remeasurement gains and losses within the new Statement of Changes in Net Assets or Net Liabilities, as it makes it more clear to the users of the statements how that information ties to the results.

The following comments pertain to areas where the City does not support a proposed change or is seeking clarification on a proposed change:

0.71-0.72 Non-financial Assets

We are in agreement with the inclusion of purchased natural assets, intangibles and Crown lands within financial statements when they meet the definition of financial assets and general recognition criteria. The City further supports keeping the exclusions on inherited natural resources in the standards until such time as guidance on the recognition, measurement and disclosure of these assets can be provided.

While there is pressure to remove the exclusions to accommodate more climate change financial disclosures and better understand the financial impacts of environmental sustainability, to do so without proper standards in place to provide guidance on recognition, measurement and reporting would be very concerning. Without appropriate standards-level guidance, understandability and comparability would be lacking and could serve to undermine the credibility of environmental and climate related financial reporting.

0.100-0.104 Statement of Net Assets or Net Financial Liabilities

The net financial liabilities/assets indicator is readily determinable from the statement of financial position. Should the reporting entity choose not to present the changes in the indicator, we question whether including this statement has any significant value.

The illustrative statement provided for the Statement of Net Assets/Financial Liabilities is mostly a regrouping of items found in the other statements. Additional variations on the presentation within this section would be useful. Also, there is the concern with having a statement that needs a written explanation on the face of the statement for users to understand it. Including this statement as part of note disclosure would be equally effective in addressing accountability.

0.151 Statement of Changes in Net Assets or Net Liabilities

Section PS 3450 Financial Instruments, effective for fiscal years beginning on or after April 1, 2022, requires the preparation of the Statement of Remeasurement Gains and Losses. Based on timelines, it appears that a separate statement is to be presented for two years and then, upon the implementation of the revised reporting model, will be part of the Statement of Changes in Net Assets.

Section PS 3450 states that it will be applied prospectively while section 151 of the new reporting model requires retroactive application. If public sector entities choose to implement the Financial Instruments standard and the new reporting model at the same time, does it mean that Accumulated remeasurement gains and losses should be restated for prior periods?

Detailed or Summary Presentation of Statements

The PSAB provides an option on whether the change in net financial assets is included in the Statement of Net Financial Assets and whether the Statement of Changes in Net Assets is in a detailed or summarized format. As this may result in variability in reporting among different entities, the City is seeking clarification on how this aligns with the Comparability qualitative characteristic outlined in section 7.24(c) of the conceptual framework. No criteria has been provided on when to include and when not to include the details.

2. The City is concerned with the April 2024 date of the implementation of the new financial reporting model for two reasons:

- a) The timing of the adoption of other new standards - ARO and the Financial Instruments Suite in April 2022 and the Revenue standard in April 2023 - will

require significant staff resources to implement and these same resources will be required for the implementation of PS 1202. Municipal resources have been stretched dealing with the COVID-19 pandemic and will continue to be stretched as we move to restart our economies and re-evaluate the provision of programs and services to our communities. Adding more resources over the next several years is not part of our fiscal reality.

- b) Included in the adoption of the Financial Instruments Suite of standards (PS 1201) in 2022 is the adoption of a new Statement of Remeasurement Gains and Losses. Two years later, with the adoption of PS 1202, this new statement was incorporated into the Statement of Changes in Net Assets/Liabilities. Users of the financial statements are just getting used to the new format when we change it again. While early adoption of PS 1202 instead of adopting PS 1201 would address this concern, many public sector entities may not be in a position to adopt all of the new reporting changes included in PS 1202 by the reporting date requirement.

Sincerely,



Stacey Padbury CPA, CA

Deputy City Treasurer and Branch Manager, Financial Services

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

June 30, 2021

Grant Thornton LLP

20th Floor
200 King Street West
Toronto, ON
M5H 3T4

T +1 416 366 4240
F +1 416 360 4944

**Raymond Chabot Grant
Thornton LLP**

Suite 2000
National Bank Tower
600 De La Gauchetière Street
West
Montréal, Quebec
H3B 4L8

T +1 514 878 2691
F: +1 514 878 2127

Dear Mr. Puskaric:

SUBJECT: Exposure Draft - Financial Statement Presentation, 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” or the “Board”) Exposure Draft entitled *Exposure Draft - Financial Statement Presentation, Proposed Section PS 1202* (hereinafter the “ED”). Overall, we agree with the intention of the ED and have the following responses to the questions asked in the ED below:

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

We agree with the majority of the proposals in the ED. Below please find our comments on specific aspects of the ED:

Definitions of financial and non-financial liabilities and performance obligations

- **Paragraph .005 (d) and (g) Definitions of non-financial liability and non-financial performance obligation** – Both of these definitions state that they are the type of liability “*that cannot be settled through the use of financial assets...*” (emphasis added). We believe that the language used is too strong and would suggest the Board replace that wording with: “it is not likely to be settled” because almost any obligation can be settled with cash, but there may be a “non-financial” way of settling the obligation. As currently worded, we believe the definitions make the threshold too hard to meet in any circumstances.
- **Paragraph .005(f) and (g) Definitions of financial and non-financial performance obligations** – We believe based on the way the two definitions are written that there is a possibility that a performance obligation would not fit into either definition. For example, there could be a performance obligation that could be settled using financial assets, but it is not expected to be settled using financial assets. To be considered a financial performance obligation, the entity must expect the obligation to be settled in cash; thus, it would not fit into this definition. However, the definition for a non-financial performance obligation states that the item “cannot be settled through the use of financial assets”. In this case, the item could be settled with financial assets; as a result, it would not meet this definition either.

Consequently, we believe that the Board should revisit the wording of the definitions. One solution would be to revise the definition for non-financial performance obligations to be the complete opposite of the definition for a financial performance obligation (e.g., that a non-financial performance obligation is not expected to be settled in cash.)

References to the Conceptual Framework

In a number of places throughout the proposed standard, the PSAB refers to entire chapters and paragraphs in the Conceptual Framework. In the ED on the Conceptual Framework, the Board stated that the Conceptual Framework is not GAAP. However, by referencing entire Chapters at times in the new proposed standard, the Board is essentially making those Chapters GAAP. Three examples are included in paragraphs .008, .009, and .207. Paragraph .009 references Chapter 10 *Presentation Concepts for Financial Statements*. In our view, the standards should be built using the fundamental concepts, but the standards should stand on their own. If there are specific requirements that the PSAB wants to be a part of GAAP, then they should be incorporated in the proposed standard. We note that there are numerous other examples of this issue which we believe the Board should revisit (e.g. Paragraph .037, note 10). We realize that references are necessary at times (e.g., definition of an asset), but we believe the Board should revisit the references and pull in more specifics into the actual standard, as appropriate, rather than force entities to now consider entire chapters or paragraphs in the Conceptual Framework GAAP.

Fair presentation

We strongly disagree with the inclusions of paragraphs .020 and .025 in the proposed standard. As currently written, these paragraphs appear to give entities permission to include non-GAAP accounting and disclosures in their financial statements, as long as there is legislation or regulations that require it. This suggests that if a government legislates certain accounting for itself, it can implement it. The decision as to whether non-GAAP measures and disclosures should be included and the assurance that can be provided on that information is an audit issue such that it is up to the auditor to decide if that causes a material misstatement or if there is another form of reporting that should be used to provide assurance on those measures or disclosures.

We also believe that this delves into the concept of supplemental information in financial statements and the impact on the audit report, which is also an audit issue. We provided a similar comment in our response to the ED on the Conceptual Framework.

Financial assets

We believe that the wording in paragraph .051 is somewhat confusing and also does not deal with the credit side of the entry for endowments. Below please find some suggested revisions to improve understandability:

*Financial instruments may be presented as financial or non-financial assets depending on whether their use is externally restricted in perpetuity. For example, endowments **contributions/transfers** restricted **such that they must be held** in perpetuity. **While the endowment may meet the definition of may be in the form of a financial instruments, it may be presented as a non-financial assets. Nevertheless, #Regardless of whether they are presented as financial or non-financial assets on the statement of financial position, **the financial instruments are otherwise recognized, measured and presented in accordance with standards for recognition, measurement and presentation of financial instruments, including derivatives, are provided in** FINANCIAL INSTRUMENTS, Section PS 3450***

We also note that the Board used the wording "may be presented as non-financial assets". Based on the use of the word "may" we would interpret this to mean the Board intended this presentation as an accounting policy choice. If that is not the Board's intent, then the wording should be changes to "must" or "shall".

We would also suggest that the Board add the word “externally” in front of the word “restrictions” to make it clear that internal restrictions would not qualify.

Financial liabilities and non-financial liabilities

Paragraphs .081 and 0.86 state that:

*Performance obligations that will be settled through the use of financial assets, **such as providing services** would be classified as financial liabilities (paragraph .081);*

Performance obligations that are settled by providing another entity with access to certain rights (e.g. a service) would be classified as non-financial liabilities (paragraph .086)

We do not understand how the provision of services results in the settlement through the use of a financial asset. We agree that the provision of goods would meet this criterion since items held for resale are a financial asset, but we do not agree that a liability to provide services is a financial liability.

Most performance obligation that relate to the provision of services will require that the entity incur payment of salaries to its employees to provide the service (or, as per the example in paragraph .086 to provide access to certain rights under a contract agreement). We believe that the distinction being made in paragraphs .081 and .086 between a financial liability and a non-financial liability regarding performance obligations that relates to the provision of services is likely to cause confusion in practice, and that these two paragraphs should be clarified as to when a performance obligation for the provision of services results in a liability being classified as a financial versus a non-financial liability.

Non-financial liabilities

We believe paragraph .091(a), footnote 23 should note that this would only apply when the deferral method is applied or when a capital transfer is accounted for in a general fund using the deferral method.

Capital government transfers

In a number of places within the proposed standard (e.g., paragraph .074 footnote 13 and paragraph .079 footnote 18), the Board conveys that capital transfers for use in providing services for a defined number of years such as its useful life may be recognized over time / the useful life of a tangible capital asset. When PS 3410 was issued, many discussions were had by entities as to what sort of stipulations could exist that would result in there being a liability related to a capital transfer after the point the tangible capital asset was acquired or built. The statements throughout the proposed standard seem to convey that capital transfers are deferred and recognized over the life of the related tangible capital asset as it is used. The Board’s own Public Sector Accounting Discussion group believed the situations whereby a capital transfer is recognized over the asset’s useful life would be rare and they could not come up with examples, while a number of members thought it would not be possible. We believe that the current wording is taking a position that capital transfers result in deferred capital contributions or endorsing this accounting. If that is not the intent, we believe the Board should take a less stringent position and convey that some capital transfers may result in this accounting as long as the stipulations result in obligations that meet the definition of a liability. For many public sector entities, they are given capital transfers to acquire capital assets to meet their mandates (for example, build a hospital). In practice, there is mixed practice in the conclusions as to whether this capital transfer would result in a liability that is recognized as revenue over time or is recognized immediately. As a result, we propose the Board should clearly convey that there has to be an obligation that meets the definition of a liability.

Statement of net financial assets of net financial liabilities.

Paragraph .102 requires the entity to provide an explanation of the net financial assets or net financial liabilities indicator. Paragraph .103 provides explanatory examples. Paragraph 3.13 of the proposed Conceptual Framework states that “*standard setters presume that those who use the resulting information have a reasonable knowledge of economic activities and some understanding of financial reports*”. Given

this presumption, we suggest that the PSAB remove the proposed requirement (and related examples) as it does not provide information that is specific to the entity related to its activities.

Statement of operations

- We are total agreement with both Section PS 1201 and the new proposed Section PS 1202 which require the presentation of expenses by function/program. However, we would like the Board to note that there are a number of government organizations/components only have one function or major program. Thus, we would like to see the Board acknowledge these entities by providing an exception in these cases, whereby these entities can present their expenses by object, with a disclosure to explain that they only have one function or program.
- In paragraph .123, the Board is going to allow public sector entities the option to not allocation interest to functions. We agree with this proposal, but we think that this option should also be provided for amortization. In current Section PS 1201, the illustrative examples provide an example, whereby the amortization is shown separately; we believe this exception should also be provided in PS 1202 similar to the interest proposal.

Statement of cash flows

- New proposed paragraph .165 states “*Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.*” While we are in agreement with this statement, we question whether this objective is met given that revenue (more specifically government transfers) with stipulations that they must be used for capital expenditures or debt reimbursement are included in annual surplus or deficit and are not subject to any adjustment in the determination of cash flows arising from operating activities.
- There are numerous sources of revenues and expenses for which there may be significant discrepancies between the amount recognized as a revenue or expense in annual surplus and the related cash flows. As a result, we question the need for the disclosure in paragraph .170 that would only require this disclosure for interest revenue or expenses. We do not see any additional benefit for users of the financial statements for this one type of item or why this disclosure is more important for interest than it would be for other items with similar differences.

Comparing actual financial performance to that budgeted

Paragraph .194 requires an entity to restate its budget when it is prepared on a different scope. While there is an exception from having to do so when the scope involves the exclusion of a material entity, we question how an entity would come up with a budget after the fact when there was none for a material program. Also, would the same exemption be allowed if the entity did not budget for a number of immaterial entities that when combined, were material? If an entity is required to restate their budget to include material programs or a number of immaterial entities that in total are material, this would require the entity to use hindsight to arrive at a budget for numerous revenue and expense items. In these instances, we believe that entities should not show a budget; instead; they should make the required disclosures in paragraph.196.

When a budget is not prepared or approved

In paragraph .196, PSAB is proposing to require a statement on the face of the statement of operations, and where applicable, the statement of net financial assets or net financial liabilities and change in net financial assets or net financial liabilities. We believe the PSAB should allow entities the choice of denoting the reason for not presenting a budget on the face of the statement and presenting a note number reference on the face of the statement entitled Budget on the face of the statement that references to a note that provides the explanation. For many clients it may be difficult to include all the wording to explain their reasoning on the face of that statement and could clutter the financial statements.

Disclosing non-compliance with financial authorities

We believe the term “financial authorities” needs a definition or example to better convey the intent of the terminology.

We also believe that the requirement to disclose such non-compliance goes beyond the requirements that should be included in an accounting framework. Paragraphs 3.31-3.32 of the proposed Conceptual framework clearly states that financial statements are one of many reports that form part of a public sector entity financial reporting, and we believe that the compliance with financial authorities should be addressed outside of the financial statements.

From an audit perspective, we think this important especially since it is unclear as to what extent auditors are expected to assess this non-compliance. CAS 250 *Consideration of laws and regulations in an audit of financial statements* provides guidance for auditors, but the PSAB’s proposals appears to go beyond what would even be considered within this standard in the context of auditing financial statements. The requirements in paragraphs .202-.204 would more likely fall in the scope (from an assurance perspective) of CSAE 3530, *Attestation engagements to report on compliance*, which does not apply to an audit of financial statements.

Extensive use of footnotes

We note that the ED makes extensive use of footnotes in the proposed standard (33 footnotes within the standard itself). We believe that the use of all the footnotes can add to confusion in applying the standard. First, the footnotes are not often noted by users of the Handbook (especially the online version) since they are not that pronounced. Also, footnotes tend to convey that the information is of less significance than the rest of the standard itself. We strongly believe that the Board should review and delete the footnotes and integrate the relevant content that are crucial to understanding a concept within the standard itself.

Appendices: illustrative financial statements

In the opening commentary, the PSAB refers to providing an optional presentation for endowment contributions. We believe the Board should make it clear in this paragraph that it is endowment contributions that are required to be maintained into perpetuity by an external party.

Other minor items

- Paragraph .095(b) should also state “accumulated remeasurement gains and losses, **if applicable;** and ...”. The reason for this addition is that some entities do not have any accumulated remeasurement gains and losses.
 - Does the PSAB’s reference to the statement of surplus or deficit in paragraph .115 mean the statement of operations? If so, we would suggest that the Board replace the wording with “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?**

Yes, we agree with the effective date.

If you wish to discuss our comments or concerns, 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,

A handwritten signature in blue ink, appearing to be 'MJ', with a long horizontal flourish extending to the right.

Grant Thornton LLP
Melanie Joseph, CPA, CA

A handwritten signature in blue ink, appearing to be 'S Landry', with 'CPA, CA' written in a smaller font to the right.

Raymond Chabot Grant Thornton LLP
Stéphane Landry, CPA, CA

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: Financial Statement Presentation, Proposed Section PS 1202

Dear Mr. Puskaric,

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

Questions

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

We have several concerns that we feel need to be addressed before issuing the new section. These include: moving away from the unique public sector format; removal of the net debt indicator from the statement of financial position and adding a new statement of Net Debt; changing the wording, calculation; and presentation of certain indicators that may impact legislation, policy, planning, and budgeting.

We believe that public sector financial statements should reflect the longevity and going concern characteristics of a Canadian government. We believe that the changes that are being recommended are, at the core, based on for-profit accounting frameworks. We understand the want and need to show some fair values of a government's financial position, and the challenges that come with that, but the fact that most of the fluctuations in fair values will likely not be realized doesn't make sense as an accountability measurement.

We are concerned that the proposed reporting model is being adapted in order to accommodate for issues that have arisen from other stakeholders and proposed standards like financial instruments, pensions, etc. and that it may not be in the best interest of the overall public sector.

The current format of the financial statements is well understood by legislators, accountants, policy makers, and other stakeholders alike. These statements were built with extensive consultations and input about the needs for the public sector and we believe include key accountability measures. We appreciate PSAB's willingness to develop a framework that is forward-looking and helps to address these concerns. However, moving away from the unique public sector format that has been built in to legislation and policy over the last 20+ years may have certain consequences for governments that have not been anticipated by PSAB and should be fully evaluated before moving forward.

For example, this type of framework and its associated terminology may result in the financial statements becoming more complex and difficult for the public and its elected officials to interpret, especially if there are significant swings in unrealized re-measurement gains/losses. This in turn may lead to decisions to control short-term volatility at the expense of the longer term. The public sector is different from the private sector in terms of resources available to interpret financial reports – the public and their elected or appointed representatives may not have access to intermediaries, such as investment analysts, who can help them interpret financial reports. As a result, understandability is key. It may take significant resources to re-educate the public and explain the ‘real’ bottom line as well as any large unrealized fluctuations.

While we understand the challenges of providing and interpreting two different measures of financial position, we are concerned that removing the net debt indicator from the statement of financial position and adding it to a new statement may downplay the importance of net debt as a financial indicator for government. This is due in part to its standalone nature and potential disconnect with the other financial statements. As a result, this could lead to less focus on controlling capital expenditures which may in turn shift the tax burden to future generations.

Certain legislation, including our *Finance Act* includes specific references to net debt and accumulated deficits. It is important to understand the impact that changing these measures and wording may have on legislative obligations and reporting. Our current legislation requires reporting on any changes to net debt that have not been anticipated in the year, so it is a key measure used frequently by government to guide our decisions.

We are also concerned that the value of the net debt calculation will be lost and may decrease in usefulness and understandability. There has been a lot of effort put into helping users at all levels understand the concept of net debt. Not only has it become a key performance indicator, but it is also a figure that is easy for users to identify, calculate, use, and understand. There is a risk that some of these benefits will be minimized with the added artificial volatility being introduced and removal from the statement of financial position.

Although we cannot argue with the accuracy and consistency of the calculation, changing the way the balance is presented does come with some real risks, both in understandability and in application. We have addressed some of our understandability concerns above, but would also like to add that 1) the simplification of the net debt presentation in its own statement may lose its value and importance with a vast majority of users, and 2) the introduction of artificial volatility by way of reporting derivatives at fair market value will add complexity to the net debt calculation, and we will find ourselves always explaining real net debt versus unrealized net debt. It is our view that reporting highly effective derivatives at fair market value does not faithfully represent the substance of a transaction, nor does it reflect the service capacity of a government entity for items that will be held to maturity. The Province of Nova Scotia has also forecasted certain Net Debt-to-GDP targets which may be impacted by the change in calculation since it is not in line with past measures.

We are also concerned that since changes in net debt will no longer be required to be disclosed, the public may have less of an understanding of what causes net debt to change, thus reducing the overall relevance/impact of this indicator. For example, a significant increase in capital spending may offset any surplus resulting in increase in net debt even though the accumulated deficit is decreasing.

The public needs to understand that even though the economic debt position is improving, that the financial debt position is worsening due to potentially unsustainable levels of capital spending that may ultimately be shifting the debt burden to future generations.

A possible solution may be to continue to require a Statement of Changes in Net Debt, instead of just a Statement of Net Debt, to continue to show the impact of TCA investments on net debt. We believe this may improve the understandability of such a statement. Otherwise, we're left with what we believe looks like two balance sheets (Statement of Financial Position and Statement of Net Debt). This Statement of Net Debt could also be like the Statement of Cash Flow whereby it shows the components of net debt as well as the changes in the components for the year.

Net debt is an important indicator of financial health as it reflects the amount of future revenues required to pay down the debt. This measure gives a more realistic viewpoint of what government owes because it excludes non-financial assets that will likely be used up in service provision and not available to pay down debt (in many cases, there is not a market for these assets anyway). The accumulated deficit, on the other hand, includes non-financial assets/obligations and gives a more complete economic perspective of government's debt position. Both provide equally important, but different perspectives. The main challenge will be in how we can continue to highlight the importance of net debt as an equally important measure for both the public and decision makers, considering the calculation is being removed from the statement of financial position and added to its own stand-alone statement.

One potential option is to allow government organizations to present using an alternative financial presentation model but retain the original presentation for senior governments. We believe that this would be an optimal solution.

Finally, we are concerned that changes to the wording may cause certain confusion and that the terms "Net Liabilities" and "Net Debt" may both be used interchangeably by unsophisticated users. In addition, making "Accumulated Deficits" a component of "Net Liabilities" may cause additional confusion in terminology. Properly communicating to and educating users will be key. Has PSAB considered whether it would provide easy-to-understand transitional materials?

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

No, we feel as though more time is necessary for such significant changes and recommend the date be pushed out to April 1, 2026.

Sincerely,

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



June 30, 2021

Michael Puskaric, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5v 3H2

Dear Michael,

The Canadian Association of University Business Officers (CAUBO) is pleased to provide you with feedback on the Public Sector Accounting Board (PSAB) **Exposure Draft “Financial Statement Presentation, Proposed Section PS 1202”** dated January 2021.

CAUBO is a non-profit professional organization representing the chief administrative and financial officers at over 100 universities and affiliated colleges in Canada. CAUBO promotes professional management and provides support to member institutions in a broad range of administrative functions.

CAUBO has a broad membership, comprised of universities located in all regions of the country and of varying sizes and specialties. As such, CAUBO university members follow different accounting standards. Across Canada four provincial jurisdictions apply Public Sector Accounting Standards (PSAS), three do not apply PS 4200 and one does apply PS 4200. The remaining six provincial jurisdictions are not government controlled and therefore apply Accounting Standards Board (AcSB), part III using either the restricted fund method or deferral method.

The comments enclosed reflect CAUBO’s national membership who apply either PSAB or the AcSB frameworks.

CAUBO Members understand that PSAB is proposing changes to its Conceptual Framework and Reporting Model because:

- it is necessary for a standard setter to periodically review its conceptual framework to ensure it remains relevant;
- the Board was asked to look at the existing conceptual framework to ensure it properly reflects and is grounded in the public sector environment; and
- certain standards-level issues made some stakeholders question the foundations of public sector financial reporting, so reconfirming if they were appropriate was necessary.

The following provides a summary of the CAUBO Member's response to the proposed changes outlined in the exposure draft.

- PSAB feels the **proposed reporting model** improves financial position understandability with only assets and liabilities, and does not include deferred inflows and outflows, as well as, a two bottom line approach on the statement of surplus or deficit.
 - **CAUBO Members support the proposed reporting model.**

- The new **proposed reporting model** includes two new statements anticipated to increase user understanding and improved accountability:
 - *Statement of net financial assets or net financial liabilities*, presents the net financial assets or net financial liabilities indicator instead of the net debt indicator subtotal on the Statement of Financial Position;
 - *Statement of change in net debt* has been removed, but the change in the indicator can be presented on the above statement; and
 - *Statement of changes in net assets or net liabilities*, presents the information currently presented on the statement of remeasurement gains and losses.
 - **CAUBO Members support the proposed reporting model.**

- **Statement of financial position** has four key amendments:
 - The relocation of net debt or net financial assets subtotal to its own statement;
 - The introduction of two categories of liabilities – financial and non-financial;
 - A restructured statement to improve user understandability; and
 - The addition of a new third component of the net assets or net liabilities position - *Accumulated Other*, as designated only by PSAB in future standards.
 - **CAUBO Members support the use of “Accumulated other” as a component of surplus or deficit but encourages PSAB to provide additional guidance as new Handbook sections are introduced.**

- The new **Statement of net financial assets or net financial liabilities** presents the revised calculation of financial assets minus financial liabilities, which enhances the usefulness of the indicator. An entity can choose to present the change in net financial assets or net financial liabilities on this statement. Additionally, the definition for non-financial asset was revised for clarity.
 - **CAUBO Members support the proposed Statement of net financial assets or net financial liabilities.**

- The new **Statement of changes in net assets or net liabilities** shows the reconciliation between the opening and closing balances of each component of net assets or net liabilities to improve transparency.
 - **CAUBO Members support the direction being taken on the proposed revisions to the financial statement presentation**
 - **The presentation of net assets is an improvement over the current terminology.**
 - **The ability for certain transactions to be presented as direct increases to net assets is an improvement over the current requirement that they be included in annual surplus.**

- The main modification to the **Statement of cash flow** is the isolation of financing activities which is important to evaluate an entity's sustainability.
 - **CAUBO Members support the proposed change.**
- **New budget requirements are proposed** to ensure an understandable actual to budget comparison.
 - **CAUBO Members do not agree with the proposed budget requirements as the effort required for this change will exceed the benefit.** Furthermore, the new budget presentation requirements will be a significant change for CAUBO members that apply PS 4200.

Proposals are effective for fiscal years beginning on or after April 1, 2024. The PSA Handbook will require a number of consequential amendments to make standards consistent with the proposed reporting model.

In general, CAUBO Members support the proposed Financial Statement presentation concepts.

Moreover, CAUBO members welcomed PSAB's decision to extend the deadline for comments until June 30, 2021. Members believe the extension was appropriate and necessary as the materials for comment, taken together, represent a significant undertaking to effectively, read, review, and respond. The initial proposed four-month window during the pandemic and many organizations year-ends was simply too short and would have impacted the quality and depth of responses that could have been prepared during that timeline.

Sincerely,



Nathalie Laporte
Executive Director,
Canadian Association of University Business Officers



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

June 30, 2021

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

Dear Mr. Puskaric:

Re: EXPOSURE DRAFT: FINANCIAL STATEMENT PRESENTATION, PROPOSED SECTION PS 1202 – January 2021

Thank you for providing us with the opportunity to comment.

Our comments are based on whether the proposals improve accountability, transparency and decision-making for the users of financial statements in the public sector.

Accumulated Other

We do not support the “accumulated other” category. This category allows governments and other public sector entities to keep undesirable transactions from being reported in the annual surplus or deficit. It can be used as a mechanism to bypass the annual surplus or deficit by directly recognizing certain revenues or expenses in net assets or net liabilities. This is contrary to the objectives of accountability in financial reporting. Please refer to our response to the Exposure Draft: *The Conceptual Framework for Financial Reporting in the Public Sector*.

Net Debt

We do not support renaming the net debt indicator. The term net debt is widely used by analysts, markets and the media in Canada. This term, and related terms such as net debt to GDP, has become embedded in the language used to analyze and compare debt levels of senior governments. We strongly encourage PSAB to retain this term to avoid causing unwarranted confusion to financial statements users.

We agree with the proposed exclusion of non-financial liabilities, such as deferred capital contributions, from the calculation of net debt. As we noted in our past annual reports, there is wide divergence in the interpretation of PS 3410, *Government Transfers*, as it relates to recipient accounting for capital transfers. Excluding deferred capital contributions from net debt allows the indicator to be calculated on a more comparable basis, regardless of interpretation. This will help facilitate better comparison and analysis of debt levels across Canada.

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15^e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

Please refer to our response to the Exposure Draft: *The Conceptual Framework for Financial Reporting in the Public Sector*.

Amended Budgets

With regards to amended budgets, we agree that in the case of senior governments, only a newly elected government should be allowed to present an amended budget. We recommend that PSAB clarify that an amended budget would only be presented if approval of the amended budget followed the required due process for establishing budgets.

We are concerned, however, with the proposal to allow government organizations to include an amended budget when there has been a change in the majority of the governing body. Paragraph .198 of the exposure draft states (emphasis added):

(New) An amended budget would only be presented for actual-to-budget comparison purposes in circumstances in which the public has chosen a change in governance and that new governing body has approved an amended budget.

(a) (New) An amended approved budget may be presented for actual-to-budget comparison purposes by a government only when there is an election and the newly elected government prepares a new budget that is approved by the legislature, council or other equivalent appropriate authority. The new government would determine if presenting the new amended approved budget or the original approved budget in its financial statements for comparison purposes would best serve the accountability objective. The amended approved budget of a new government may affect the budgets of its controlled entities.

(b) (New) An amended approved budget may be presented for actual-to-budget comparison purposes by a government organization only when the majority of its governing body has been newly elected or appointed and it approves a new budget.

For government organizations that are part of a larger government reporting entity, changes in the governing body are generally not a direct result of choices made by the public. Rather, changes to the governing body are most commonly the result of appointments made by the controlling government. Paragraph .198(b), as presently worded, appears to permit an amended budget if there is any appointment or election. This would run contrary to the first sentence of paragraph .198, which clearly states that an amended budget should only be presented when there were changes that resulted from a decision by the public. We are concerned that paragraph .198(b) can be used as a mechanism to present an amended budget when considered advantageous by the government reporting entity to do so, weakening the accountability value of budget-to-actual comparisons. To minimize confusion and to ensure that budget-to-actual comparisons remain meaningful, PSAB should clarify that only government organizations whose governing body are directly appointed or elected by the public may present an amended budget.

In addition, we noted that footnote 31 on page 34 states (emphasis added)

Mr. Michael Puskaric

Page 3

June 30, 2021

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.

We are concerned that this wording suggests that an amended budget can be presented if a new program is introduced that was not in the scope of the original approved budget. In the public sector, the addition of a new program is not an uncommon occurrence. Accountability is best served by showing the variances in the financial statements caused by the introduction of the new program, rather than presenting an amended budget that would effectively exclude any resulting variances. We encourage PSAB to remove the reference to programs in this footnote.

Budget Not Prepared or Approved

We support PSAB's proposal to require that public sector entities include a specific acknowledgement in the financial statements when a budget is neither prepared or approved. Budgets are a key accountability mechanism. In the absence of this information, financial statements users should understand the reasons behind management's decision not to prepare or approve a budget.

Responses to Requests for Specific Comments

Our responses to the matters on which you specifically requested comments are set out below.

Question 1

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

Please see our responses above.

Question 2

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

Yes, we agree.

Thank you for the opportunity to comment.

Yours truly,



Bonnie Lysyk
Auditor General of Ontario

June 30, 2021

Michael Puskaric
Director
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2
info@psabcanada.ca

Re: “The Conceptual Framework for Financial Reporting in the Public Sector” and “Financial Statement Presentation, Proposed Section PS 1202” -- Consultation Response to Exposure Drafts

Dear Mr. Puskaric,

On behalf of the undersigned organizations, please find attached a consultation response to the exposure drafts that describe proposed revisions to the Public Sector Accounting Board's "Conceptual Framework for Financial Reporting in the Public Sector," and introduce the proposed new standard "Financial Statement Presentation, Section PS 1202."

This submission relates to the recognition of natural assets in Canadian public-sector accounting. Our response explains our position in relation to the need for public-sector accounting to be able to reflect the monetary value of natural assets in Canada, including carbon sequestration and storage, flood protection and biodiversity benefits. In particular, we recommend that the explicit exclusion of non-purchased natural resources be removed from the proposed new Financial Statement Presentation standard, Section PS 1202. The exclusion of natural assets from financial statements means that resources available to public-sector entities are not faithfully represented. The removal of this exclusion -- thereby permitting the inclusion of natural assets -- would not obligate a public-sector entity to recognize its natural assets.

We also recommend that the PSAB undertake a project to develop guidance about the recognition and measurement of natural resources, similar to projects under way at the International Public Sector Accounting Standards Board. With guidance, public-sector entities that are already prepared to recognize natural assets in their financial statements could do so in a consistent manner.

We appreciate the opportunity to comment on this very important undertaking, and would be pleased to provide any additional information that may be required. We also welcome the opportunity to assist PSAB in the development of standards and guidance materials to support public-sector entities to incorporate natural assets in their financial statements.

Yours sincerely,



**Joanna Eyquem, P.Geo, ENV SP.,
CWEM, CEnv,**
Managing Director, Climate-Resilient
Infrastructure, Intact Centre on Climate
Adaptation, University of Waterloo



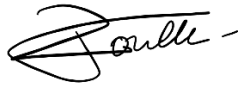
Bailey Church, CPA, CA, CIA
Partner, Professional Practice
KPMG Canada



Roy Brooke
Executive Director,
Municipal Natural Assets Initiative



Sonia Baxendale
President and CEO,
Global Risk Institute



Florian Roule
Senior Director, Strategy and
Partnerships, Head of Sustainable
Finance, Finance Montréal



Kevin Travers
Partner, Infrastructure Government
and Healthcare Practice
KPMG Canada



Jonathan Fowle
Chief External Relations Officer,
Vancouver City Savings Credit Union



Craig Stewart
Vice President, Federal Affairs
Insurance Bureau of Canada



Jennifer Place
Board Chair
Government Finance Officer of Alberta
(GFOA)



Dr Richard Florizone
President & CEO,
International Institute for Sustainable
Development



Dr Susan Black
President and CEO,
The Conference Board of Canada



Mike Wilson
Executive Director,
Smart Prosperity Institute



Sean Kidney
CEO,
Climate Bonds Initiative



Rachel Samson
Clean Growth Research Director,
Canadian Institute for Climate Choices



Blair Feltmate, Ph.D.
Head, Intact Centre on Climate
Adaptation,
University of Waterloo



Robert Siddall, FCPA, FCA
Independent



Julie Gelfand
Former Federal Commissioner of
Environment and Sustainable
Development, Office of the Auditor
General of Canada



Carole Saab
CEO
Federation of Canadian Municipalities



Sandra Califaretti, CPA, CA
Director, Accounting Services
City of Toronto




Raoul Cyr, CPA, CA
Directeur Comptabilité et informations
financières,
Ville de Montréal



Julia Aspinall, CPA, CMA
Director, Financial Services
City of Vancouver



Michel Houle, CPA, CMA
VP, Corporate Services and CFO,
National Capital Commission



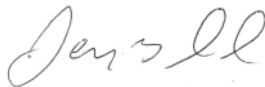
Jeffrey J. Jackson, MBA, CPA, CA
Director of Finance and Treasurer
City of Mississauga



Colleen Sklar
Executive Director,
Winnipeg Metropolitan Region



Mark Medeiros
Acting Treasurer,
City of Brampton



Jerry Blackwood, CPA, CGA
CFO,
Halifax Regional Municipality



Michael Coroneos, CPA, CMA
Deputy City Manager, Chief Financial
Officer & Treasurer,
City of Vaughan



Lisa Helps
Mayor,
City of Victoria



Andy Wardell, CPA, CGA,
General Manager, Finance & Chief
Financial Officer
District of North Vancouver



Moya J. Leighton CPA, CGA, MBA
Town Treasurer & Director of Finance
Town of Halton Hills



Myriah Foort, BBA, CPA, CA
Chief Financial Officer
Comox Valley Regional District



Jenn Hepting
Chief Financial Officer /
Director of Finance,
City of Colwood



Isabel Gordon, MBA, CPA
Director, Financial Services,
District of West Vancouver



Emanuel Machado
Chief Resiliency Officer
Town of Gibsons



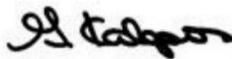
Sarah Pacey
Chief Administrative Officer,
Town of Florenceville-Bristol



Kevin Wilkinson, CPA, CA, MBA
Controller,
Windsor-Detroit Bridge Authority



Will Cole-Hamilton
Steering Committee,
Climate Caucus



Gabriella Kalapos
Executive Director
Clean Air Partnership



Edward McDonnell
CEO,
Greenbelt Foundation



Gerard McDonald, MBA, P.Eng., ICD.D
Chief Executive Officer,
Engineers Canada



Andrea Waldie, P.Geo., FGC
Chief Executive Officer
Geoscientists Canada



Dan Huang RPP, MCIP
President
Canadian Institute of Planners



Michael Leering P.Eng.
Director, Environment and Business
Excellence Standards
CSA Group



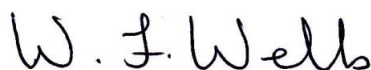
Christopher Chen
Executive Director
Asset Management Ontario



Jennifer Court
Executive Director
Green Infrastructure Ontario



Catherine Lavoie
Présidente-directrice générale
Centre d'expertise et de recherche en
infrastructures urbaines (CERIU)



Wally Wells P.Eng.
Executive Director
Asset Management BC



Daisy Foster
Managing Director,
Atlantic Infrastructure Management
(AIM) Network



Bernadette O'Connor
Manager, Municipal Asset
Management, Canada
WSP Canada Inc.



Jeff Atherton, P.Eng.
Senior Asset Management Consultant
AECOM Canada Ltd



Ron Scheckenberger, P.Eng.
Principal,
Wood Canada Ltd



Jennifer Petruniak, PMP.
Technical Lead, Environmental
Services
Dillon Consulting



Al Beaver
Executive Director.
Wildland Fire Risk Management Ltd



Robert Smith
Principal,
Midsummer Analytics



Alain Bourque
Directeur général
Ouranos - Consortium sur les
changements climatiques



Jérôme Dupras, Ph.D.
Professeur agrégé, Titulaire, Chaire de
recherche du Canada en économie
écologique, Université du Québec en
Outaouais



Dr Saul Klein
Dean, Gustavson School of Business,
University of Victoria



Susan Nesbitt, Ph.D. P.Eng.
Professor, Co-Director, Urban Systems
Master of Engineering Leadership,
The University of British Columbia



Deborah Harford
Executive Director
Adaptation to Climate Change Team,
Simon Fraser University



Robert Wilson
Director of Conservation Finance,
Nature Conservancy of Canada



Meghan Leslie
President and CEO,
WWF-Canada



Jay Ritchlin
Director-General, Western
Canada/National Nature portfolio lead
David Suzuki Foundation



Marcy Sullivan, CPA, CA
Chief Financial Officer
Ducks Unlimited Canada



Laura Cui, CPA, CGA
National Director of Finance,
Canadian Parks and Wilderness
Society (CPAWS)



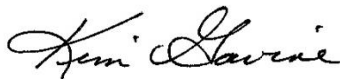
Lara Ellis
Senior Vice-President, Policy and
Partnerships,
ALUS



Antoine Verville
Directeur général,
Regroupement des organismes de
bassins versants du Québec



Martin Vaillancourt
Directeur général,
Regroupement national des conseils
régionaux de l'environnement du
Québec



Kim Gavine
General Manager,
Conservation Ontario



Deborah Martin-Downs
CAO
Credit Valley Conservation



Hassaan Bassit
President and CEO,
Conservation Halton



DG Blair
Executive Director,
Stewardship Centre for BC

Proposed Changes to the PSA Handbook's Conceptual Framework and Context

The PSAB notes that its current Conceptual Framework for Financial Reporting in the Public Sector specifies that certain types of assets are to be excluded from recognition in financial statements: "These exclusions relate to:

- natural resources and Crown lands that have not been purchased;
- developed and inherited intangibles; and
- works of art and historical treasures."

The PSAB is proposing to relocate these exclusions from the Conceptual Framework to its new standard for Financial Statement Presentation, Section PS 1202; it says "such exclusions are standards-level decisions, not concepts underlying financial statements."¹

The PSAB has concluded that "before these exclusions can be removed, each type of economic resource must be considered individually. Appropriate guidance regarding their recognition and measurement must be provided."²

Response

- Canada is rich in natural capital, or natural assets (the stock of natural resources and ecosystems), that deliver economic benefits to public-sector entities. Under the proposed changes to the PSAB Conceptual Framework, this wealth will remain explicitly excluded from public-sector financial statements, except where natural assets have been damaged and have needed to be recreated/restored, or have otherwise effectively been "purchased."
- Failure to recognize, in any form, the value of intact "inherited" natural assets understates the resources available to a public-sector entity to provide services. This conflicts with the financial reporting objective noted in Chapter 6 of the proposed Conceptual Framework: "reporting [an entity's] financial position." Paragraph 6.15 observes: "To make such assessments, users require information about the total economic resources available to serve the public and the total claims on those resources (i.e., economic obligations) at the financial statement date."
- By excluding the value of their inherited natural assets, public-sector entities are not providing adequate information about all assets - users do not have information about the state of natural assets, or their potential impairment. This lack of information has historically led to the mismanagement of natural assets, and to the deterioration of the services they provide to the communities and economies over which public-sector entities have jurisdiction. Degraded natural assets may also present otherwise undocumented liabilities.
- It is also critical that public-sector entities account for, and value, the carbon sequestration and storage services of natural assets, which can be used to offset greenhouse gas emissions and contribute to fulfilling Canada's commitment to achieving net-zero emissions by the year 2050.
- Reliable methods of measurement and data collection already exist for valuing natural assets, are tried and tested in Canada, and are already being applied by local public-sector entities to inform their asset-management planning. Without a recognition of natural assets in financial statements, there is a disconnect between asset management and financial reporting, which contradicts the close linkage established between existing assets and liabilities.

- By allowing the value of natural assets to be recognized in the Statement of Financial Position, the PSAB can support public-sector entities in making more financially sound decisions about the management of natural assets in the short, medium and long term.
- In addition to removing the exclusion of non-purchased natural resources from the PSAB Conceptual Framework, we recommend that **the explicit exclusion of non-purchased natural resources be removed from the proposed new Financial Statement Presentation standard, Section PS 1202**. This removal would enable public-sector entities that are ready to recognize natural assets in their financial statements to do so in a consistent and defined manner. The removal of this exclusion -- thereby permitting the inclusion of natural assets -- would not obligate a public-sector entity to recognize its natural assets.
- The PSAB should regard natural assets as a **priority topic** from now on, and the inclusion of natural assets in the financial statements of public-sector entities should be addressed in the forthcoming 2022-2027 Strategic Plan. Future work could include, for example, incorporating consideration of natural assets within the technical agenda and in a Statement of Recommended Practice. In the absence of timely and concerted action, the risk is that public-sector accounting standards will become less relevant in a world where natural capital is increasingly recognized as a central part of Canada's economy by investors, accountants, economists and public-sector entities.

Endnotes

¹ Public Sector Accounting Board. 2021. "Exposure Draft -- The Conceptual Framework for Financial Reporting in the Public Sector," p. iv. Accessed at: <https://www.frascanada.ca/en/public-sector/documents/psab-ed-conceptual-framework>

² Public Sector Accounting Board. 2021. "Exposure Draft -- The Conceptual Framework for Financial Reporting in the Public Sector," p.111. Accessed at: <https://www.frascanada.ca/en/public-sector/documents/psab-ed-conceptual-framework>

Supporting Information

1) The Financial Value of Natural Assets

The term "natural assets" refers to the stock of natural resources and ecosystems.¹ Examples of natural assets include wetlands, rivers, lakes, forests, fields, coastal marshes, dunes and soils.

Economists refer to natural assets as **natural capital** whose services and goods support human and produced capital (Fig. 1).

Benefits from natural assets are termed **ecosystem goods and services**, and may be divided into provisioning, regulation and cultural services.

Overall, ecosystems and the services they provide underpin all economic activity, as has been amply documented nationally and internationally, most recently for example in the landmark report produced for the U.K. government, "The Economics of Biodiversity: The Dasgupta Review."² Such reports note that the climate change and biodiversity crises are compounding the urgent need to overcome the institutional, economic and accounting failures to recognize nature.

At the municipal level, natural assets are increasingly being included in the definition of "infrastructure" in Canada, since many ecosystem services either contribute directly to the municipal mandate (e.g., to provide stormwater conveyance, erosion control, air quality) or are strongly influenced by local decision-making (e.g., about community well-being or climate regulation). Yet, overall, natural assets are not routinely inventoried and valued, and are explicitly excluded in public-sector financial reporting.

The Government of Canada's Budget 2021³ notably reflects the importance of natural infrastructure, with the creation of a Natural Infrastructure Fund that is slated to receive \$200-million over the next three years. The budget also emphasizes initiatives to strengthen public climate-related disclosures, observing that "... to ensure a stable and predictable transition to a low-carbon economy, markets, insurers, policy makers, and the public require standardized information about the climate-related risks and opportunities organizations face."

Crown corporations are required to meet milestones for climate-related financial disclosures by 2022 or 2024, depending on the value of assets held. The budget says "Canada's Crown corporations will demonstrate climate leadership by adopting the Task Force on Climate-related Financial Disclosures (TCFD) standards, or [by adopting] **more rigorous, acceptable standards ... applicable to the public sector** at time of disclosure, as an element of their corporate reporting." The Public Sector Accounting Board has a principal role to play in the development of these more rigorous standards.

Natural assets bring direct financial benefits to public sector entities, including those associated with addressing climate change and biodiversity.

The effective management of natural assets by public-sector entities can contribute twofold to addressing climate change by: a) contributing to reduction of climate-related risks (climate adaptation) and b) by increasing carbon sequestration thereby reducing greenhouse gases in the atmosphere (climate mitigation). These specific ecosystem services, as well as the value of biodiversity, are incorporated in the overall value of natural capital.

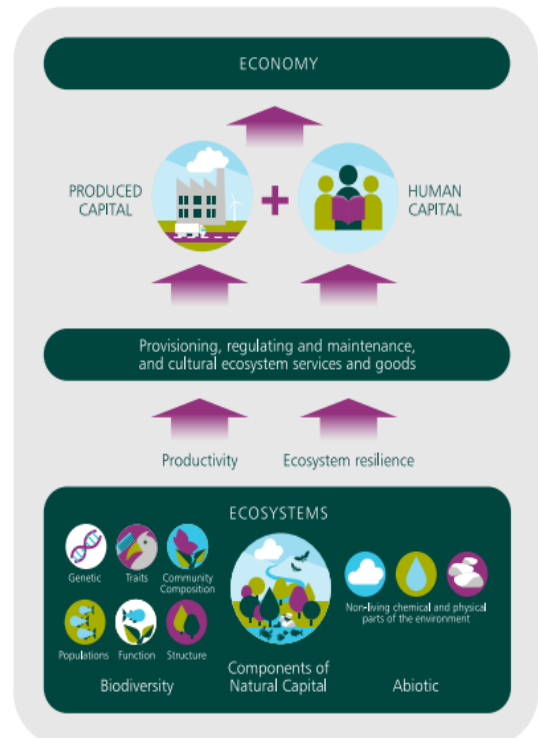


Figure 1: Links From Biodiversity to the Economy, Source: "The Economics of Biodiversity: The Dasgupta Review."⁴

The significant financial value of natural assets in reducing the damages from flooding was highlighted in a framework established in 2016 by the Insurance Bureau of Canada, the International Institute for Sustainable Development and the Intact Centre on Climate Adaptation.⁴ Natural assets also play an important role in reducing the impact of extreme heat created by the "urban heat island effect;" several major cities are planting trees on a large scale to counteract such heat.

Natural assets also play a key role in carbon storage and sequestration. Vegetation extracts carbon from the atmosphere, while the Earth's soils hold about 2,500 gigatons of carbon— more than three times the amount of carbon in the atmosphere and four times the amount stored in all living plants and animals.⁵ According to the Geological Survey of Canada, the peat in Canada's wetlands holds almost 60 per cent of all the carbon stored in soils across the country.⁶ Carbon storage and sequestration is receiving increasing attention as countries and businesses adopt more aggressive "net-zero" targets, and look to nature-based solutions as a means to offset greenhouse gas emissions. Carbon credits are likely to appreciate in value driven by increased demand, although their pricing within the carbon market will likely not reflect the full range of services provided by natural assets. In relation to the proposed federal Greenhouse Gas Offset Credit System Regulations⁷, public sector entities could potentially play a role designing and implementing projects that could be registered by project proponents. In Quebec, the cap-and-trade system for greenhouse gas emission allowances has been in place since 2013 and already includes an offset credit component administered by the provincial government.

2) The Valuation of Natural Assets is Increasingly Undertaken in Canada

Since 2016, municipalities across Canada have been conducting inventories, modeling, valuing and managing natural assets, (Box 1) and the rate of such activities is increasing. The value of the services provided by natural assets has been calculated in economic terms through the work of the Municipal Natural Assets Initiative (MNAI), the Greenbelt Foundation, the Toronto Region Conservation Authority (TRCA), Credit Valley Conservation (CVC), Ouranos, the University of Quebec in Outaouais (Research Chair in Ecological Economics) and ALUS, among others.

The examples below illustrate the **significance of natural assets for stormwater management and flood resilience**, based on MNAI's assessments⁸, which use the same detailed modeling as for many engineered assets:

- A seven-kilometre riverbank in the Oshawa Creek watershed in Ontario provides \$18.9-million worth of stormwater conveyance /drainage annually to nearby communities based on replacement cost;
- Naturally occurring ponds in White Tower Park in Gibsons, B.C. provide between \$3.5-million and \$4-million in stormwater storage to the local government based on replacement cost;
- Widening and naturalizing 1,292 metres of the Courtenay River riverbank in Courtenay, B.C. provides \$2.4-million in flood-damage reduction to downstream properties during a 1-in-200-year flood event; and
- Protecting four wetlands that comprise 13,791 square metres in the Mill Creek Watershed in New Brunswick delivers \$1.4-million in benefits during a 1-in-100 year flood event.

Box 1: Municipalities across Canada where natural asset management efforts including inventorying, modelling, valuation and management efforts have already been undertaken

Town of Logy Bay-Middle Cove-Outer-Cove, NL
Town of Riverview, NB
Town of Florenceville-Bristol, NB
Village of Riverside-Albert, NB
Greater Montreal, QC
Greater Quebec City, QC
Rivière Chaudière, QC
Compton, QC
National Capital Region, ON/QC
City of Oshawa, ON
Region of Peel, ON
Town of Oakville, ON
City of London, ON
York Region, ON
City of Richmond Hill, ON
Town of Gibsons, BC
District of Sparwood, BC
City of Courtenay, BC
District of West Vancouver, BC
City of Grand Forks, BC
City of Nanaimo, BC
Regional District of Central Kootenay, BC
Regional District of East Kootenay, BC
Regional District of Kootenay Boundary, BC
City of Cranbrook, BC
Town of Golden, BC
City of Rossland, BC

The findings of numerous other organizations in Canada similarly document the significant monetary value of natural assets for flood-risk reduction and other services:

- The ability of wetlands to slow down, store and enable the evaporation of excess rainwater helps to reduce flood damages in the metropolitan area of Quebec City, a service worth \$49.8-million annually.⁹
- In the National Capital Region, which contains the cities of Ottawa, Ont. and Gatineau, Que., urban and rural forests provide erosion control services worth an estimated \$327,500 and \$5.2-million annually, respectively.¹⁰
- In the City of Hamilton, a restored wetland complex costing approximately \$15.3-million (compared with \$28.5-million for an engineered solution) will reduce floods and provide recreation and other services valued at up to \$44.2-million.¹¹

In relation specifically to climate regulation through carbon storage and sequestration:

- Within the metropolitan area of Quebec City, rural and urban forests have been estimated to provide carbon storage services to a value of \$11 595 million per year, and carbon sequestration services of \$ 9.3 million per year¹¹. Wetlands have been estimated to provide carbon storage services to a value of \$ 4 666 million per year, and carbon sequestration services of \$ 0.9 million per year¹¹.
- Wetlands within the National Capital Region were estimated to provide climate regulation services to a value of \$ 2.9 million per year¹²

3) Methods of Valuing Natural Assets

The value of the services provided by natural assets can be determined with a high degree of accuracy, using a combination of modeling and monitoring to determine the extent of the services provided, and well-defined economic approaches to determine the value of the services.

Natural assets that have not been purchased may be valued using several well-developed techniques, grouped into three approaches: 1) direct market valuation, 2) revealed preference and 3) stated preference. A fourth category, the benefit-transfer (or value-transfer) method, involves applying the results from prior studies of a specific ecosystem service to a new area of interest. Each of these methods has its strengths and weaknesses, and most can only be applied to a subset of ecosystem services, depending on the type of value that the service contributes.

A frequently recommended method for assessing the value of natural assets is the Replacement Cost method. This employs a direct market valuation, and can be readily calculated. It shows what it would cost to provide a natural asset's service by an engineered means. This valuation method is appropriate when the services being provided by a natural asset could be replaced by conventional infrastructure (e.g., engineered stormwater management). In this case, the cost of replacing the asset's capacity to provide a specific service can be estimated using the replacement cost of conventional infrastructure.

Revealed Preference may be an appropriate method when a local government would like to understand how a natural asset is affecting the market price of a related good (e.g., the travel cost incurred to visit the location).

Stated Preference is an appropriate method of valuation when municipalities would like to get a sense of what the community would be willing to pay (in taxes for instance) to ensure the continued health of a service (e.g., the cost of maintaining forest cover to promote desired air quality).

In situations where a natural asset contributes multiple services to a public entity (e.g., water filtration and recreation) it may be necessary to employ more than one valuation technique at the same time to arrive at the value of an asset.

The old argument that natural assets should be excluded from financial statements because it is not possible to reliably calculate their value is outdated, given the availability of the above methods of valuing natural assets, and their active use by local governments in Canada.

As has been well documented by MNAI and others, it is possible and indeed often straightforward to calculate the services and corresponding service values for many types of natural assets. For example, it is now routine to calculate the water-filtration and storage services provided by wetlands, using modeling to ensure accuracy, and also to determine with a high degree of precision the capital and operating costs of an engineered storage and filtration system required for the same task. There are ways to make direct market-value comparisons for many other services provided by natural assets that can be used to characterize service value.

Further discussions between PSAB and expert stakeholders may be required to determine *how* to calculate appropriate values of natural assets -- but not *whether* they exist, are tangible, and can be determined.

To foster a more rapid inclusion of natural assets in financial statements, we suggest that initial accounting efforts could focus on the ample array of natural assets and services for which valuation methods are the most developed.

It should also be noted that the valuation of assets that are already recognized does not necessarily yield a precise "correct" answer; asset values may vary significantly over time according to short-term market fluctuations. While a wetland's services and corresponding value will typically depend on its context and location, the same is equally true of, for example, a building whose value will vary according to its location, market conditions and other context-dependent factors.

Natural assets should not be held to a higher standard of accounting certainty than that demanded for other asset classes.

4) The Need for Public Sector Accounting to Evolve

Since the value of intact natural assets is excluded from public-sector entity financial statements, the costs of damage to natural infrastructure or the benefits of restoration are not appropriately factored into public-sector decision-making. Consequently, **short-term monetary gains that often drive the degradation of natural assets are frequently prioritized above the long-term economic value of services provided year-on-year by intact natural assets.**

The lack of disclosure of natural assets' values has historically led to their mismanagement and to the degradation of the associated services they provide to public-sector entities.

Degraded natural assets may also present otherwise undocumented liabilities. For example, a degraded aquifer can lead to substantial costs to find or build a suitable alternative.

Natural assets meet PSAB's characteristics of an asset

The PSA Handbook, Section PS 3210, names three essential characteristics that an asset must have to be considered a financial asset. These are outlined in Table 1, together with the way that these characteristics are reflected in *natural* assets. There appears to be no barrier to considering natural assets as recognizable "assets," and therefore no reason for their explicit exclusion from statements of financial position.

Table 1: Characteristics of Assets and How Natural Assets Meet these Criteria

Characteristics of "assets"	Characteristics of natural assets
They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.	Public-sector entities derive distinct future economic benefits from natural assets. Forests provide tree cover that makes communities more livable and offer a recreation space to those living in the community. Wetlands and rivers mitigate flood risks. Such natural assets may contribute to future cash inflows, where a municipality sells passes for admission. They also reduce cash outflows, by reducing expenditures required to mitigate flood risks by investing in traditional infrastructure. The range of services and goods derived from natural assets, and the methods that can be used to value these services and goods in monetary terms have been presented in the preceding sections.
The public-sector entity can control the economic resource and access to the future economic benefits.	Public-sector entity decisions directly affect natural resources and community access to the benefits they provide, including their economic benefits, both now and in the future. For example, a decision to permit damage to a natural asset may remove long-term access to economic benefits for an entire community – a financial loss that is currently not reflected in financial statements. Public-sector entities may also regulate access to the services provided by natural resources using infrastructure or fees for service (e.g. stormwater management rates).
The transaction or event giving rise to the public-sector entity's control has already occurred.	The transaction or event giving rise to the public-sector entity's control is typically the inheritance or acquisition of rights to the natural asset. This can be demonstrated to have occurred through the rights of the Crown.

On the international stage, the way in which “value” is accounted for is changing -- PSAB standards must evolve to keep pace in Canada.

- In March 2021, the 52nd United Nations Statistical Commission adopted the System of Environmental-Economic Accounting—Ecosystem Accounting (SEEA EA).¹² This new statistical framework will enable countries to measure their natural capital, and understand the contributions of nature to prosperity and the importance of protecting it.
- In March 2020, the International Public Sector Accounting Standards Board (IPSASB) Natural Resources Project was established to address issues relating to the recognition, measurement, presentation and disclosure of natural resources. Its Project Brief notes that: "Items that are not recognized risk being mismanaged. Because natural resources are such a significant revenue source for many jurisdictions, the lack of recognition and measurement was highlighted as a public interest issue."¹³
- In September 2020, financial institutions, regulators and corporations established a working group to bring together a Taskforce on Nature-related Financial Disclosures (TNFD),¹⁴ similar to the established Taskforce on Climate-related Financial Disclosures (TCFD), which is gaining increasing momentum with both private and public-sector entities.

There are already moves in several countries to adopt natural capital accounting systems.

- In the U.K., at the Office for National Statistics (ONS), natural capital accounts are being compiled annually, in line with the guidelines recommended by the United Nations SEEA EA.
- In South Africa, the Accounting Standards Board's Standard of Generally Recognized Accounting Practice (GRAP) Standard for Living and Non-living Resources (GRAP 110) was published in 2017. This standard prescribes the requirements for the recognition, measurement, presentation and disclosure of living resources, and the disclosure requirements for non-living resources.¹⁵

- In the United States, the Federal Accounting Standards Advisory Board (FASAB) introduced guidance (which took effect in 2013) requiring federal entities to report the value of the federal government's estimated royalties and other revenue from federal natural resources that are under lease, contract or other long-term agreement, and are reasonably estimable.¹⁶

The focus on the importance of natural capital has also increased notably since the beginning of the COVID-19 pandemic. The value of natural assets to local communities and human well-being has been brought sharply into focus as a result of stay-at-home orders and restrictions on activities and travel.

The public sector -- international institutions and countries -- has recognized the monetary value of natural assets, and the private sector is rapidly following suit.

Asset managers, institutional investors, banks and insurance companies are also actively seeking opportunities to incorporate natural-capital considerations into investment decision-making and financial services. A key example is BlackRock, the world's biggest asset manager. In a report detailing its engagement priorities for 2021,¹⁷ BlackRock says: "All companies rely on natural capital in some way and, as the world transitions to a low-carbon economy, we ask companies to demonstrate how they are minimizing their negative impacts on, and ideally enhancing the stock of, the natural capital on which their long-term financial performance depends."

Natural capital is an integral part of Environmental, Social and Governance (ESG) performance, the metrics of which are being used to determine credit ratings, including for public-sector entities. It is also an important factor for entities to consider when they set targets to meet the United Nations' Sustainable Development Goals, such as the protection and restoration of ecosystems and efforts to halt the loss of biodiversity (Goal 15, "Life on Land").¹⁸

In Canada, Swiss Re, the Insurance Bureau of Canada and MNAI are working on a pilot project to develop insurance products that would provide explicit coverage to protect natural assets against potential damage from natural disasters, such as earthquakes, hurricanes, floods, droughts and wildfires.¹⁹ These new insurance products highlight the significance of natural assets to community well-being – and demonstrate that their protection merits attention similar to that afforded to traditional/ grey infrastructure assets. Under this "parametric insurance," claim payouts are triggered by a predefined event such as a hurricane of a certain magnitude; the payout is almost immediate, in order to repair any damages to the natural asset so that it can continue to deliver its ecosystem benefits.

Institutional investors are also actively looking for investment opportunities to increase natural capital as part of their sustainable-finance initiatives. For example, Fondation in Quebec has employees whose specific role is to develop these investment opportunities.

Major banks are also forecasting growth in the green-loan market in Canada, as an alternative financial instrument to green bonds. The preservation and restoration of natural capital projects could be funded by green loans, accessed by local governments.

Public-sector entities that want to take advantage of new green financing opportunities will have to measure and account for a baseline value for their natural capital, in order to demonstrate their return on investment (ROI), which would logically be reflected in their financial position statements.

5) The Role of the PSAB in Enabling Natural Asset Accounting in Canada

There is significant momentum in Canada in documenting and valuing natural assets

In Canada, efforts to assess and value natural assets in terms of the services they provide are already assisting local governments in the effective, long-term management of their municipal assets and services. By integrating natural assets into their asset management systems, several local governments have been able to craft more-robust plans to ensure continued service delivery, combining the benefits of built and natural assets. The inability to reflect all of these assets in financial statements effectively creates a significant discrepancy between true assets available to a municipality to provide services, and assets recognized in the Statement of Financial Position. Removal of the explicit exclusion of recognition would remove this discrepancy.

On the international front, Canada’s co-leadership of the Nature-Based Solutions Action Track of the Global Commission on Adaptation indicates support at the federal level for the recognition of the untapped potential of natural assets to reduce climate risks.

PSAB can build on this momentum and be a key enabler for the recognition and improved management of natural assets in Canada by undertaking the following steps:

- Remove the explicit exclusion of non-purchased natural resources from the proposed new Financial Statement Presentation standard (proposed Section PS 1202), understanding that this does not obligate public-sector entities to include natural resources in their financial position statements.
- Work with stakeholders to incorporate concrete steps towards the recognition and measurement of natural assets in public-sector financial statements as part of the PSAB's Strategic Plan for April 1, 2022 to March 31, 2027, rather than including this topic in the project priority survey after the Strategic Plan is finalized. Several stakeholders, including signatories to this response, are eager to contribute resources to work with PSAB to make this happen. This could include initial guidance on note disclosure of natural assets, providing time to build familiarity with such reporting and to develop guidance, prior to inclusion in audited sections of financial statements.

Steps toward the inclusion of natural assets in public-sector financial position statements could include working in partnership with subject matter experts and stakeholders. For example, the PSAB could:

- Provide public-sector entities with guidance for the inventory and valuation of natural assets – potentially working with the Standards Council of Canada, MNAI, the Canada Research Chair in Ecological Economics (University of Quebec in Outaouais), Ouranos, TRCA, CVC, the Greenbelt Foundation, Green Infrastructure Ontario and local governments that have already undertaken detailed studies in this area.
- Understand the need for, and uses of, natural-asset public-sector accounting data – potentially working with the Global Risk Institute, Finance Montreal’s Sustainable Finance Initiative, Toronto Finance International’s Resource Centre for Sustainable Finance, TNFD, TCFD, and the Insurance Bureau of Canada, together with their members: banks, credit ratings agencies, institutional investors and insurance companies.

Canada is rich in natural assets that deliver economic and social benefits to public-sector entities, including carbon sequestration and storage, flood protection and biodiversity. The PSAB can support public-sector entities in valuing, preserving and growing this wealth for the economic benefit of Canadians, by enabling it to be reflected in financial position statements.

Endnotes

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¹⁶ Federal Accounting Standards Advisory Board. 2011. Accounting for Federal Natural Resources Other than Oil and Gas. Technical Bulletin 2011-1 Accessed at: http://files.fasab.gov/pdf/origina_tech_bulletin_2011_1.pdf

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PSAB Joint Response - ICCA KPMG MNAI - Signature list (June 30, 2021)

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1. Intact Centre on Climate Adaptation – Head (x2)
2. KPMG – Partner and National Lead, Local Government Practice (x2)
3. Municipal Natural Assets Initiative - Executive Director

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4. Global Risk Institute - President and CEO
5. Finance Montreal - Head of Sustainable Finance
6. Vancouver City Savings Credit Union - Chief External Relations Officer
7. Insurance Bureau of Canada – Vice President, Federal Affairs
8. Government Finance Officer of Alberta (GFOA) - Board Chair
9. International Institute for Sustainable Development – President & CEO
10. The Conference Board of Canada – President and CEO
11. Smart Prosperity Institute – Executive Director
12. Climate Bonds Initiative – CEO
13. Canadian Institute for Climate Choices –Clean Growth Research Director
14. Robert Siddall, FCPA, FCA
15. Office of the Auditor General of Canada – Strategic Advisor and Former Federal Commissioner of Environment and Sustainable Development
16. Federation of Canadian Municipalities -CEO
17. City of Toronto – Director of Finance
18. City of Montreal - Director of Accounting and Financial Information
19. City of Vancouver – Director of Financial Services

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20. National Capital Commission – Corporate Services & Chief Financial Officer
21. City of Mississauga - Director of Finance and Treasurer
22. Winnipeg Metropolitan Region - Executive Director
23. City of Brampton – Acting Treasurer
24. Halifax Regional Municipality - CFO
25. City of Vaughan - Deputy City Manager, Chief Financial Officer & Treasurer
26. City of Victoria - Mayor
27. District of North Vancouver - General Manager, Finance & Chief Financial Officer
28. Town of Halton Hills – Town Treasurer & Director of Finance
29. Comox Valley Regional District - Chief Financial Officer
30. City of Colwood - Chief Financial Officer / Director of Finance
31. District of West Vancouver - Director of Finance
32. Town of Gibsons - Chief Resiliency Officer
33. Town of Florenceville-Bristol, NB - Chief Administrative Officer
34. Windsor-Detroit Bridge Authority – Controller
35. Climate Caucus (300+ elected officials) - Steering Committee
36. Clean Air Partnership - Executive Director
37. Greenbelt Foundation – CEO

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38. Engineers Canada - Chief Executive Officer
39. Geoscientists Canada - Chief Executive Officer
40. Canadian Institute of Planners - CEO
41. CSA Group - Director, Environment and Business Excellence Standards
42. Asset Management Ontario – Executive Director
43. Green Infrastructure Ontario
44. Centre d'expertise et de recherche en infrastructures urbaines (CERIU) – Présidente-directrice générale
45. Asset Management BC – Executive Director
46. Atlantic Infrastructure Management (AIM) Network - Managing Director
47. WSP - Manager, Municipal Asset Management, Canada
48. AECOM Canada Ltd - Senior Asset Management Consultant
49. Wood Canada Ltd - Principal
50. Dillon Consulting Ltd - Partner and Technical Leader, Environmental Sciences
51. Wildland Fire Risk Management Ltd - Executive Director
52. Midsummer Analytics - Principal
53. Ouranos – Director
54. Canadian Research Chair in Ecological Economics, Université de Québec en Outaouais – Chair
55. Gustavson School of Business, University of Victoria – Dean

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56. Department of Engineering, University of British Columbia
57. Adaptation to Climate Change Team, Simon Fraser University - Executive Director
58. Nature Conservancy of Canada – Director of Conservation Finance
59. WWF-Canada – President and CEO
60. David Suzuki Foundation - National Nature portfolio lead
61. Ducks Unlimited – Chief Financial Officer
62. Canadian Parks and Wilderness Society – Director of Finance
63. ALUS - Senior Vice-President, Policy and Partnerships
64. Regroupement des organismes de bassins versants du Québec
65. Regroupement national des conseils régionaux de l'environnement du Québec
66. Conservation Ontario – General Manager
67. Credit Valley Conservation – CAO
68. Conservation Halton - Executive Director
69. Stewardship Centre for BC - Executive Director

June 30, 2021

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

PSAB Exposure Draft: Financial Statement Presentation, Proposed Section PS 1202

We commend PSAB for embarking on this project. The proposed Section 1202 makes several changes and improvements to the Financial Statement Presentation Standard which are pragmatic and strategic. While these changes do attempt to increase the understandability and accountability of the information contained within the financial statements, we have additional comments as to how this could be further achieved.

Our comments to PSAB's specific question are reflected in the attached Appendix.

Sincerely,



Dan Stadlwieser
Controller

Attachment

Financial Statement Presentation, Proposed Section PS 1202***1. Do you agree with the proposed new financial statement presentation standard?*****Generally agree – but have made some comments below.**

We agree in principal with the proposed new financial presentation standard and agree that the reporting model should be periodically reviewed to improve understandability, accountability and better meeting user's needs.

Throughout the exposure draft itself, there is the discussion and presentation of the change to Net Financial Assets (Net Financial Liabilities) from Net Debt, which is a concept that we agree with and believe is very important. Given this, and the fact that financial obligations are proposed to be settled through the use of financial resources and non-financial obligations are settled through the use of non-financial resources, the distinguishing of these categories will assist in and enhance the users understanding of the financial statements overall. For example, non-financial assets and non-financial liabilities should have no impact on net debt. This is a critical change and a key improvement within the proposed PS 1202 standard.

While we are in general agreement with the exposure draft, we have identified below some matters for your consideration.

Clarity and Understandability

Clarity and understandability is paramount for the readers of the financial statements themselves, especially when it comes to key indicators. Under the proposed new standard, there are several items which we have identified as requiring more clarity.

Accumulated Other

There are concerns we have with regards to clarity of the proposed new standard in relation to the Accumulated Other component of Net Assets/Liabilities. We understand that this proposed change is being made to increase accountability and that it will be used in very rare circumstances. The "In Brief" document, as well as the exposure draft, discusses the concept and the premise that the Public Sector Accounting Board (PSAB) will designate revenues and expenses that would be recognized in this component, although at the current time there are no items designated under this component. For the purposes of clarity and understanding, we do recommend that potential examples of items that could be recognized under this component in the future be added. Failing that, that it should be removed until such a situation arises in which there would be a need for such a component.

Hedge Accounting

As we have expressed several times, the lack of a hedge accounting standard reduces the clarity for the reader to fully understand the future economic impact of hedge agreements to the government. This new standard misses an opportunity to present a clearer picture of the financial requirements in hedging agreements. Hedging is used to offset gains and losses arising from holding financial instruments to maturity and to protect against market risk. Without guidance on reflecting hedging arrangements in the Statement of Financial Position, users are unlikely to understand that the impact of changes in risk (i.e., foreign exchange) does not affect the future financial commitment to the government. We recommend that the proposed standard is re-evaluated to include presentation options to help inform readers which amounts related to hedge agreements reported on the Statement of Financial Position will result in future cash impacts.

Presentation of Net Financial Assets/Liabilities

Net Debt is an important indicator, not only for the public sector but also for many stakeholders, including the general public, who have become familiar with this term. Given the changes to some of the terminology and presentation, it would be beneficial to have a communications plan to help with the general understanding of the changes being made and to eliminate any sort of possible confusion with the public.

The proposed standard puts a new focus on Net Financial Assets (Net Financial Liabilities), including a new Statement of Net Financial Assets (Net Financial Liabilities). This demonstrates the importance of this new indicator, and we recommend this importance be reflected in the Statement of Financial Position. Instead of Total Assets and Total Liabilities, we propose that Net Financial Assets (Net Financial Liabilities) is reported as an indicator on the Statement of Financial Position, as well as Net Non-Financial Assets (Net Non-Financial Liabilities) to arrive at the indicator of Net Assets (Net Liabilities). By amending the presentation, a separate statement for Net Financial Assets (Net Financial Liabilities) is not necessary, but could be presented if the government chooses the option of presenting the change and reason for the change. Having the new indicator on the Statement of Financial Position conveys its importance, and provides an opportunity to tie the opening balance, changes during the year and ending balances to the presentation on the new Statement of Net Financial Assets (Net Financial Liabilities).

Recognition Exclusions

In its current state, the Public Sector Accounting Standards (PSAS) Handbook sets out exclusions from recognition in financial statements in the conceptual framework. These exclusions are proposed to be moved to the financial statement presentation standard until PSAB considers the topics. While we agree that such exclusions are standards-level decisions and not concepts underlying financial statements, its proposed relocation to a presentation standard is out of scope for that particular standard as is suggested under PS 1202.002. It is also noted in the basis of conclusions BC9.31 that

moving the recognition exclusions to Section PS 3210 would contradict the purpose of that standard as it is not a recognition standard. However, this may still yet be a better location given the subject matter relates to asset exclusions and not to presentation.

2. 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 for the implementation of the proposed new presentation standard. We believe it provides enough time for governments to consider any changes that might be needed to Enterprise Resource Planning systems, as well as gather information for restatement and address other operational challenges.



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).

Question(s)

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.

June 30, 2021

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

**Re: Response to PSAB Exposure Draft
Financial Statement Presentation, Proposed Section PS 1202**

Dear Mr. Puskaric,

With respect to the proposed new financial statement presentation standard, we are providing comments regarding our areas of concern.

PS 1202.102 Explanation added to the proposed Statement of Net Financial Assets/(Net Financial Liabilities)

We disagree with the addition of an explanation of the new indicator to the face of the proposed Statement of Net Financial Assets (Net Financial Liabilities). Adding wording to the face of this Statement creates an inconsistency from other Statements (Financial Position, Operations, etc) and creates a precedent for adding explanations to the face of those other Statements. Adding this additional information is distracting and draws attention away from the statement itself. The users of the financial statements are presumed to be knowledgeable in financial matters and able to review the entire set of financial statements for any explanations required. We are not aware of any other accounting standard that allows for explanations to be included on the face of the statements. In our opinion, this will be confusing to the users. Typically comments on financial indicators or financial statements accounts are provided in the financial statement discussion and analysis (FSD&A) or in the notes to the financial statements.

We recommend any required explanation of the new indicator be reported in either the FSD&A or the notes.

PS 1202.100 Use of the term Net financial liabilities instead of Net debt

We believe that the stakeholders of the Provincial government have become familiar with Net debt as a key indicator in the Province's financial statements and of its financial health. Such stakeholders include taxpayers, regulators, individuals involved in legislation, members of the



media, etc. To replace the term will require increased education by these users and may result in confusion until such time as everyone learns to the new terminology. Given that there is generally expected to be little to no difference between the existing calculation of net debt and the calculation of net financial liabilities, and that PSAB feels a definition of the net financial liabilities term must be included in the financial statements, we question what benefit results from renaming this term.

We recommend that the net debt term be kept. If considered necessary, the explanation referred to in PS 1202.102 can provide the meaning of the net debt term in the notes to the financial statements.

PS 1202.136 Revenue and Expenses reported outside surplus/deficit

PS 1202.136 indicates that revenue or expense permanently reported outside of surplus or deficit, should be disclosed as permanent in the financial statements. PSAB alone determines if a revenue or expense should be directly reported as a component of net assets / net liabilities. We question whether any item should be permanently accounted for outside of the surplus/deficit and whether such accounting outside of the statement of operations meets the accountability and transparency objectives.

With respect to question 2, we agree with the proposed effective date of April 1, 2024.

Thank you for the opportunity to comment.

Yours truly,

A handwritten signature in blue ink that reads "Paul Martin". The signature is fluid and cursive, with a large initial "P" and "M".

Paul Martin, FCPA, FCA
Comptroller
Office of the Comptroller, Finance and Treasury Board



First Nations
**FINANCIAL
MANAGEMENT
BOARD**

**CONSEIL
DE GESTION
FINANCIÈRE** des
Premières Nations

Response to ‘Financial Statement Presentation, Proposed Section PS 1202 – Exposure Draft’

July 9, 2021

July 9, 2021

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

Dear Michael:

Re: Responses to Financial Statement Presentation, Proposed Section PS 1202 – Exposure Draft

The First Nations Financial Management Board (“the FMB”) is pleased to provide the Public Sector Accounting Board (“PSAB”) with its comments on the Exposure Draft, ‘Financial Statement Presentation, Proposed Section PS 1202’, dated January 2021.

The FMB agrees with the proposed new financial statements standards overall. However, we continue to have some concerns with limited exceptions when an amended budget can be disclosed. We have provided comments on a limited number of topics from the Exposure Draft for your consideration in addition to our response to your proposed question.

We thank you for the opportunity to express our support for this Exposure Draft. Please contact us if you have any questions or would like to discuss any of our comments in more detail.

Sincerely,

FIRST NATIONS FINANCIAL MANAGEMENT BOARD

Per: 

Geordie Hungerford, CFA, CAIA, MBA, LLB
Chief Executive Officer

Comments Requested

Question	FMB Response
<p>1. Do you agree with the proposed new financial statement presentation standard?</p>	<p>We agree with the proposed new financial statement presentation standard overall.</p> <p>In particular, we agree with the classification of liabilities into financial and non-financial liabilities. First Nations do have liabilities that are not settled using financial assets, an example of which is prepaid amounts for long-term land leases. We note the questions raised during the Public Sector Accounting Discussion Group meeting on April 8, 2021 asking PSAB to consider whether a prepaid long-term lease would be appropriately classified under this new standard given the proposed definitions.</p> <p>The FMB may investigate the nature of liabilities to assess the financial performance of First Nations. This distinction and the revision on the computation of net financial assets/liabilities will provide clarity in the financial statements. This clarity will assist the FMB as a user of First Nation government financial statements.</p> <p>We remain concerned about the limited exceptions when an amended budget can be disclosed, as the exceptions do not align with the requirements of a Financial Administration Law¹ that over one-third of Indigenous governments in Canada have adopted. Our comment on this matter is included below.</p>
<p>2. Do you agree with the effective date of April 1, 2024, to implement the financial statement presentation standard, Section PS 1202?</p>	<p>We agree that proposed effective date of April 1, 2024 would provide sufficient time for Indigenous Governments to transition into the new standard.</p>

¹ As enacted under the *First Nations Fiscal Management Act* and approved by the FMB

Additional Comments

Paragraph Reference	Paragraph from ED or context for recommendation	Recommendation
.198	<p>.198 (New) An amended budget would only be presented for actual-to-budget comparison purposes in circumstances in which the public has chosen a change in governance and that new governing body has approved an amended budget.</p> <p>(a) (New) An amended approved budget may be presented for actual-to-budget comparison purposes by a government only when there is an election and the newly elected government prepares a new budget that is approved by the legislature, council or other equivalent appropriate authority...</p> <p>(b) (New) An amended approved budget may be presented for actual-to-budget comparison purposes by a government organization only when the majority of its governing body has been newly elected or appointed and it approves a new budget...</p>	<p>FMB has developed templates and standards for First Nations to use in developing their own Financial Administration Law (“FAL”). More than 200 of approximately 600 Indigenous Governments have enacted their FAL under the <i>First Nations Fiscal Management Act</i> (“the <i>FNFMA</i>”).</p> <p>Section 16.5.1 of the FAL Standards² developed by FMB provides for the annual budget for the following fiscal year to be approved by both the Finance and Audit Committee as well as the Council by March 31st.</p> <p>Section 16.5.2 of the FAL Standards developed by FMB also requires that an amended budget be prepared with respect to local revenues. Based on FMB’s review of First Nations’ FAL in the past, the amended budget, if any, must be approved by both the Finance and Audit Committee as well as the Council by July 15th.</p> <p>Under the <i>FNFMA</i>, many First Nations approve their annual tax rates law and annual expenditure law subsequent to March 31st which is the deadline for approving the annual budget specified in their FAL. For example, a First Nation’s Chief and Council typically approves its annual budget in mid-March, and subsequently approves annual tax rates law and annual expenditure law in May. The amended annual budget would be approved by the Chief and Council in June or July as required by the FAL.</p> <p>Further, the First Nation’s FAL often permits for amendments to be made to the budget and approved by the Council for emergency expenditures not included in the budget as well as any substantial and unforeseen change in the forecasted revenues or expenses of the First Nation or in the expenditure priorities of the Council. No other changes to the budget are permitted.</p>

² First Nations Financial Management Board. *A2 Financial Administration Law Standards April 1, 2019*. https://fnfmb.com/sites/default/files/2019-07/a2_-_financial_administration_law_standards_-_april_1_2019_-_en_-_v2.pdf

Paragraph Reference	Paragraph from ED or context for recommendation	Recommendation
		<p>The exceptions provided in the Exposure Draft for Proposed Section PS 1202 do not align with the requirements of the FMB's FAL Standards or the timing of when property tax laws are approved under the <i>FNFMA</i>.</p> <p>The requirements contained in the FAL Standards reflect the FMB's views regarding the most appropriate budget that should be compared to actual performance for accountability purposes. Most First Nations do not prepare a Financial Statement Discussion & Analysis, and therefore, the financial statements serve as the primary document for communicating fiscal accountability.</p> <p>We recommend following addition to the relevant provisions of the Exposure Draft for Proposed Section PS 1202:</p> <ul style="list-style-type: none"> • Expand to provide for the presentation of an amended budget if that amendment is specifically required or provided for in the relevant legislation of the reporting entity. • Expand to provide for the presentation of an amended budget if amended budget figures provide more accountability to its users. • If an amended budget is presented, provide provisions to require disclosure detailing the reason for the amendments to the original approved budget and the quantum of the difference between the original budget and the final amended budget.

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

June 25, 2021

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the Treasurer & Director of Corporate Finance of the Regional Municipality of Peel, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities
2. Amend paragraph 2.69 to expand the definition of longevity as a characteristic of public sector entities to provide more detail on what the term encompasses
3. Amend the definition of unique governance structure in paragraph 2.37 to make reference to public sector entities' unique interdependency on other levels of government to fulfill their obligation to serve the public
4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions
5. Amend paragraph 2.19(C) to remove the word "generally" from the description of taxation
6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be

deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements

7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
8. Amend paragraph 3.20 so labour force only includes recognition of value based on current usage and payment for services
9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources
10. Amend paragraphs 7.08-7.11 to maintain the term “reliability” instead of “faithful representation”
11. The terms “economic resources” and “economic obligations” are not as intuitive as the terms “assets” and “liabilities” for users of financial statements. More clarity should be provided in the definitions under the Glossary
12. Amend paragraphs 9.37-9.40 to provide clarification on the concept of Going Concern to add the potential for public sector entities to end through sale, amalgamation, etc.
13. Replace “accumulated surplus or deficit” with “accumulated results of operations” in PS 1202 in order to reduce inherent biases by users of financial statements
14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed. Should you wish to follow up on this letter, please contact Stephanie Nagel, CPA, CGA (stephanie.nagel@peelregion.ca).

Sincerely,



Stephanie Nagel, BBA, CPA, CGA, MBA
Treasurer & Director of Corporate Finance
Region of Peel

cc. Donna Herridge, Municipal Finance Officers' Association of Ontario (donna@mfoa.on.ca)



June 30, 2021

VIA E-MAIL

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

Dear Mr. Puskaric,

Re: Response to Exposure Draft of Financial Statement Presentation

I would like to thank PSAB for the opportunity to comment on the above-mentioned exposure draft. Overall, we believe the proposed model is an improvement over the existing standard and we agree with the effective date of April 1, 2024. The following outlines our feedback on the new model.

New statement of financial position

Overall, we prefer the proposed layout of the statement of financial position to the existing standard. We believe it will be more familiar to users and easier to understand. However, as mentioned in our response to the proposed new conceptual framework, we would also support a model that categorizes assets and liabilities between current and long term. We believe this may be more useful information for users and more familiar and consistent with other frameworks including IPSAS.

However, we agree that splitting liabilities into the two new categories is an improvement over the existing model. We would recommend simplifying the definition of a non-financial liability to be a liability that does not meet the definition of a financial liability. This would keep it consistent with the definition of a non-financial asset and would eliminate the possibility of a liability for which the classification cannot be determined.

Changes to Net Debt

We agree with the decision to remove net debt from the statement of financial position. This is not an indicator that we tend to focus on or draw attention to.

We agree that the new calculation of net financial assets minus net financial liabilities is an improvement over the previous calculation of net debt. We find that the inclusion of investments in GBEs as a component of net financial assets limits the usefulness of the existing net debt indicator and with the proposed net financial liabilities or net financial assets indicator.

We are neutral in relation to the proposed new statement of net financial liabilities or net financial assets. Again, this indicator is not an area of focus for our office.

We recommend removing the requirement to provide an explanation of the meaning of the net financial assets or net financial liabilities indicator on the face of the statements or elsewhere. We do not explain the meaning of any of the other statements, and this may inadvertently place more emphasis or importance on this statement than others. We would suggest that the need to explain statements and classifications to users is an indication that the framework remains somewhat difficult to understand, as the concepts of financial assets, non-financial assets, financial liabilities, and non-financial liabilities are not widely understood by users and are not used in other frameworks. Again, we would favor an approach that was more consistent with IPSAS to improve the understandability.

However, if PSAB chooses to require an explanation of the meaning of the net financial assets or net financial liabilities indicator, we recommend PSAB specify the wording to be used to ensure consistency.

Accumulated Other

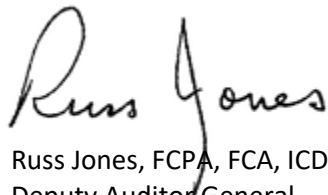
We agree with the proposal to create this new category within net assets. We can see that it may provide opportunities for solutions to existing and future accounting challenges.

Share Capital

We would prefer to see PSAB include two additional elements in the conceptual framework for Ownership Contributions and Ownership Distributions rather than create a new category within net assets for Share Capital. Share capital is narrow in application and we expect it will limit user's ability to report other types of contribution and distribution activities and may limit PSAB in the creation of new standards.

Thank you again for the opportunity to provide feedback.

Yours truly,



Russ Jones, FCPA, FCA, ICD.D
Deputy Auditor General

June 30, 2021

Mr. Michael Puskaric - Director
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Mr. Puskaric:

RE: Consultation Response to PSAB Exposure Drafts on “The Conceptual Framework for Financial Reporting in the Public Sector” and “Financial Statement Presentation (PS1202)”

The City of Vancouver appreciates the opportunity to submit our inputs to PSAB on the exposure drafts for the Conceptual Framework and the Financial Statement Presentation. We would like to acknowledge the efforts by PSAB to arrive to the exposure drafts and recognize the collaborative approach PSAB has undertaken to solicit feedback from various stakeholder groups to ensure the proposed changes are relevant and meaningful to the stakeholders.

The following document provides our responses to the questions posed by PSAB on the exposure drafts. We have outlined general and specific considerations for PSAB to review, and in particular, highlighting the unique differences of the municipal finance framework governing local government entities compared to other public sector entities including senior level governments. It is important to outline such differences to highlight the relevant and meaningful financial reporting that addresses the key essence of the Conceptual Framework, which promotes accountability. We hope as PSAB continues to work through these drafts and future work that our inputs help inform future planning and developments.

We look forward to updates from PSAB on the consultation process on the exposure drafts of the Conceptual Framework and Financial Presentation. Should you wish to discuss on our responses further, we welcome the opportunity.

Truly,



Julia Aspinall, CPA, CMA
Director, Financial Services
City of Vancouver

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

The Conceptual Framework covers the essential aspects of a financial reporting framework and provides opportunities to address emerging developments including sustainability concepts. The Conceptual Framework is presented in a well-organized structure and covers relevant concepts for municipal government entities including service capacity, accountability, reliability and materiality. However, the Conceptual Framework does not present material substance changes to its existing references for municipal entities. Furthermore, it is important to recognize the requirements and constraints of the municipal finance framework and it is different from other levels of government and public entities, hence the Conceptual Framework may not pragmatically advance reporting objectives for local government entities. Elaboration of these concerns are outlined below:

1) Incorporating a Budget for comparison

The concept to incorporate a Budget in a comparable view for Actuals comparison is generally good standard reporting practice. The City of Vancouver adopted this practice in 2013. However, one of the important municipal fundamental elements relating to Accountability is not fully addressed through this change despite its intentions. Local municipal governments operate under a different finance framework compared to other senior government levels. For instance, in the Province of BC, the statute states that local municipal governments cannot borrow to fund operating expenses and debt borrowing can only be used for capital financing. By statute, Council approves the operating and capital budgets and service capacity are determined based on these approved budgets. Essentially, the funding of these operating and capital budgets are primarily driven through a cash view rather than an accrual view that aligns less with the PSAB standards and concepts. There may be an opportunity to enhance reporting options to address these shortcomings, such as utilizing a budgeted cash flow statement to bridge the two reporting requirements or a standard income statement format that allows easier reconcilability between the financial statement budget view and Council-approved budgets view.

2) Accountability and Service Capacity

As alluded from the above, the municipal framework reflects the fact that municipalities have more limited funding tools and borrowing capabilities compared to other levels of government and public entities. The operating and capital budgets (non-PSAB view) for local municipalities is the mechanism to gain approval for resources to fund services which means a cash view is taken to establish the funding requirement in order to set property taxes and fees for that year. As budgets must be balanced each year and municipalities cannot fund operating costs with debt and requires the funding must be in place first. The securing of funding sources are critical in determining service capacity and as well as the focus on how accountability have been measured for a municipal entity.

3) Understandability

While it is common for many organizations to prepare both accounting-standards based (eg: PSAB) reports and operating (eg: municipal operating budget or management-view) based reports, the municipal framework gives greater focus and accountability to the operating view where Council approves an annual budget that has implications for its primary stakeholder; the public. The difference between the PSAB view and the operating budget reporting view of the City's financials should be understandable, and not onerous efforts made to explain the key difference so Council and the public have a good comprehension of the differences and why they exist. Accounting standards and

adjustments to present financial information in PSAB format, different from their primary accountability cash view are not easy for non-Finance people to understand and may not necessarily yield the same operational focus in being accountable to public funds. Furthermore, the terminology of both existing and proposed are not obvious to layperson, including to elected-council members and the general public without extensive training and explanation. For example, the media is quick to create headlines on 'annual surplus' and 'accumulated surplus' that may insinuate unnecessary taxing of the public when those surpluses are often times restricted spending or future capital investments. Additionally, in the municipal context, accumulated surplus is largely comprised of tangible capital assets that are required to provide service to the public [see appendix A for example of media's misconception of municipal surpluses]. Further considerations should be given in defining proposed terminology/concepts such as non-financial liabilities to be more easily understood as the current definitions lack tangible substance to aptly apply it by a finance person or comprehended by a non-finance person.

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

The proposed changes are acceptable but the benefits of these changes are not obvious in terms of realizable enhancements for the municipal financial statements readers. Public sector financial statements are typically different from the mainstream private and public companies' financial statements. It takes education and awareness to understand the fundamentals of public sector financial statements and the goal of the financials statements should make it easier to understand without further complicating the matters.

The concept of net assets/liabilities make sense but the additional statement of explaining the indicator of the net financial assets/liabilities seems redundant in its purpose and may be more simply achieved through a note disclosure rather than an additional statement.

We also recommend further consideration to the terminology and components of net assets to better serve the financial objectives of local government. The usual general meaning of "surplus" is that which is in excess of what is required. Additionally, the use of the term "accumulated surplus" does not promote understandability of local government's net asset position. Recent financial statements of our peer 7 largest Canadian cities showed that approximately 85% of net assets were represented by "investment in tangible capital assets". This item is material enough to warrant direct disclosure on the Statement of Financial Position and provide a more meaningful description than accumulated surplus.

One of the recurring challenges with municipal financial statements is the understanding of annual 'surplus' by many readers of the financial statements as demonstrated in the headlines from the articles Chan, Kenneth "City of Vancouver recorded \$229 million budget surplus in 2020" DailyHive Vancouver, March 24 2021 Web and "How Vancouver went from warnings of bankruptcy to a \$229M surplus" Metro Matters CBC Vancouver Friday, April 02, 2021. As a municipal entity, surpluses are typically generated through the acquisition of capital assets or timing of expenses not matching revenue. Historically, a significant portion of the City's surpluses are generated by revenues received that have specific obligations or limitations on its use for a specific purpose. PSAB accounting does not recognize these as deferred revenues despite those obligations, which creates a misconception that the City recognizes a profit through unnecessary increases to property taxes and program fees. Additionally, surpluses are required to acquire tangible capital assets which are essential to providing service capacity to the public and repayment of debt.

Do you agree with the effective date of Apr 1, 2024 to implement financial statement presentation standard, section 1202?

The COVID-19 pandemic impacts have required many organizations including the public sector entities to reprioritize and pivot quickly in supporting the demands from the pandemic to prioritization of direct activities servicing its community and rationalize limited project resources and funding. With several PSAB standard changes effective over the next several years, including the PS 3400 Revenue Recognition and PS 3208 Asset Retirement Obligations, these are substantial changes and require significant amount of staffing efforts to prepare for such change. As such, we request PSAB to consider delaying the adoption date (by April 1, 2024) by at least a couple of years to enable impacted entities to prepare for the changes. Furthermore, the changes do not present significant change in concepts; thus the adoption can be delayed without significant risks.

Appendix A- Common Misconception of Municipal Surpluses by the Media and Public



Friday, April 02, 2021

How Vancouver went from warnings of bankruptcy to a \$229M surplus

How could the City of Vancouver go from the threat of bankruptcy to a [\\$229 million surplus](#) in the course of a year?

It was a question a lot of people had last week when Vancouver released its [annual Statement of Financial Information](#) — a document all B.C. municipalities must make publicly available each year that includes the salaries of every employee earning more than \$75,000 — showing the fully audited surplus for 2020.

Opponents of Mayor Kennedy Stewart used it to mock his previous worries about the financial consequences of COVID. Others wondered why a third straight year of property taxes going up by five per cent was necessary, or conversely, why the city wasn't spending more on social services if it had so much money.

But as with a lot of controversies over municipal finances, context matters.

Consider: while that \$229 million surplus is large, in 2019, it was \$300.7 million. And lest you think this is unique to Vancouver, in 2019, Surrey's budget surplus was \$289 million, Coquitlam's was \$214 million and Richmond's was \$98 million.

Overall in 2019, B.C. municipalities had a combined annual surplus of \$2.35 billion, the eighth straight year that figure eclipsed the billion dollar mark.

The truth is that budgeting practices in most large B.C. municipalities create large structural surpluses year after year.

There's a couple of reasons for this.

One is the legal requirement (prior to a one year exception for COVID) to never run a deficit: if you want to avoid trouble with higher levels of government, it's better to err on the side of caution to ensure you'll be in black at the end of the year.

But the other is a philosophical belief by many municipalities to fund large parts of their infrastructure through reserves, a "pay as you go" approach, rather than taking on debt for capital projects, which higher levels of government are generally much more comfortable doing.

It meant most municipalities were well positioned to deal with the pandemic, even before provincial assistance.

At the same time, it's another reminder that not all levels of government are created equal — or have the same fiscal philosophies.

Office of the Controller
Metro Hall, 14th Floor
55 John Street
Toronto, Ontario M5V 3C6

Tel: 416-392-8427
Andrew.Flynn@toronto.ca
www.toronto.ca

July 8, 2021

Michael Puskaric, Director
Public Sector Accounting Board (PSAB)
277 Wellington St. West
Toronto, Ontario M5V 3H2

Dear Michael:

The City of Toronto is appreciative of the opportunity to provide comment on the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting and the new PS 1202 Financial Statement Presentation standard.

Overall, the City of Toronto supports the proposed concepts and language in the two Exposure Drafts, however, comments for your consideration are included in Attachment A.

We thank the Board for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew Flynn".

Andrew Flynn
Controller
City of Toronto

cc. Sandra Califaretti, Director Accounting Services
Mark Rozic, Project Director, Accounting Services

/SAC

Attachment A

Exposure Draft - The Conceptual Framework for Financial Reporting in the Public Sector

PSAB is seeking responses to the following question:

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

The City of Toronto (the City) is generally supportive of the concepts and principles introduced by the Public Sector Accounting Board in its Exposure Draft on the Conceptual Framework for Financial Reporting, but provides the following comments for consideration:

Service Capacity as a financial reporting objective

Chapter 3, Financial Reporting Objective, of the Conceptual Framework considers the concept of service capacity as an objective of public sector financial reporting since the concept encompasses key aspects of a public sector entity's overall accountability to the public.

- The City questions the benefit of such a concept and its appropriateness as an objective in the context of public sector financial reporting when this concept is not strictly a financial measure (as acknowledged by PSAB) and therefore cannot be objectively measured through financial reporting alone.
- It has potential to confuse or mislead users because the financial statements taken alone provide an incomplete picture of an entity's true service capacity because they fail to consider other significant factors impacting service capacity that are not reflected in an entity's financial results, such as the ability to tax, skill of the labour force, and efficiency of program delivery. The notion of service capacity can be considered in terms of non-financial sustainability issues or arrangements that can impact future revenue streams, as an example.
- Financial statement users may be left with the false impression that an entity's future service capacity is measured based on its past financial performance.
- The City agrees with the notion that a public sector entity's primary objective is to service the public, but is unclear what the value is provided in considering service capacity in financial statement reporting.

Transitional Provisions

The Exposure Draft is proposing prospective adoption immediately on inclusion of the revised conceptual framework into the Handbook.

- Although, PSAB indicates it is not expecting the changes to the conceptual framework will have an immediate effect on most reporting entities, the City further believes that it would be more practical to adopt the conceptual framework changes at the same time as the reporting model changes due to the interaction between the two sections.

- This is discussed further in the City's response to the exposure draft on Financial Statement Presentation.

Stewardship as an additional consideration

The proposed conceptual framework does not consider the concept of stewardship. Public sector organizations are stewards of public dollars and resources. Good stewardship increases public sector productivity and efficient use of public resources. PSAB should consider the inclusion of stewardship as an enhancement of accountability and the provision of reliable information to financial statements readers. Stewardship is a risk consideration, closely connected to oversight and governance in public sector organizations

Exposure Draft - PS1202 Financial Statement Presentation

PSAB is seeking responses to the following questions:

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

The City of Toronto (the City) is generally supportive of the concepts and principles introduced by PSAB in its Exposure Draft on Financial Statement Presentation. It is our opinion that the two new statements increase transparency related to financial sustainability and performance obligations. Specifically, the change brings greater clarity to Net Debt, which has been a confusing indicator since first introduced. However, the City would like to raise the following for consideration:

Introduction of "Accumulated Other"

The City has concerns with introducing such a component without a clearly defined understanding of the transactions and events that this component will facilitate.

- The City believes that the introduction of such a component should be deferred at this time and introduced once there is a clear need that is defined and presented in the context of an accounting standard or exposure draft, similar to how accumulated re-measurements was introduced through the Financial Instruments standard.
- Once linked to a standard there will be more information available to stakeholders to better assess whether the use or introduction of such a component is justified.

The City is further concerned with the idea that transactions recorded to the Accumulated Other component may not be recycled to the Statement of Operations.

- The City believes that flowing transactions through separate components of equity/net assets without recycling will reduce the accountability and visibility of these transactions, introduce unneeded complexity to financial statement users, and will ultimately reduce the transparency of such transactions because they will never flow through to the Statement of Operations

- The City believes that revenues and expenses should ultimately be recognized in the annual surplus or deficit of a public sector entity, in order to accurately and transparently present an entity's financial performance for a particular period.
- Although the City recognizes that there are a number of emerging issues in accounting, the use and disclosure of this component may be premature at this time.

Reserves as a Component of Net Assets / Net Liabilities

The City of Toronto and many municipalities across Canada utilize reserves as part of their normal operating activities primarily for purposes of designating revenues earned from operations for a specified purpose based on decisions made by City Council.

- The City believes that such decisions need to be reflected on the face of the financial statements as a component of Net Assets / Net Liabilities for transparency and accountability purposes. This is particularly important as a way to reduce confusion regarding revenue recognition vs. allocation of equity. Reserves are an important indicator for Council as users of the financial statements and provide more meaning than the notion of historical surpluses/deficits.
- Disclosing reserves as a component of Net Assets/Net Liabilities will provide financial statement users with relevant information relating to the impact of City council decisions, the intended future use of the City's historical surpluses, and the extent to which historical surpluses are available to fund, from a budgetary perspective, future City initiatives or programs.

Continued Exclusion of Non-Purchased Intangible Assets

PSAB is proposing to relocate the exclusion of non-purchased intangible assets from the Conceptual Framework to PS 3210.

The City of Toronto agrees with this movement to the standard level, however, raises concern with the continued exclusion of intangibles that are not specifically purchased. In particular, the exclusion of natural assets from recognition in a public sector entity's financial statements is not appropriate given that such assets bring direct benefits to public sector entities.

- Failure to include such assets within public sector financial statements provides an incomplete representation of the resources available to a public-sector entity.
- The removal of this exclusion will not obligate a public sector entity to recognize its natural assets, but rather, provides them with the option to do so only when the definition of an asset is met and the benefits can be reasonably measured.
- Some of the more documented examples of the benefits that natural assets provide public sector entities relate to mitigating the impacts of climate change and climate related risks, reducing greenhouse gases in the atmosphere, storm water management, flood resilience/prevention. As an example, PSAB can consider allowing recognition of

natural assets at nominal amounts, allowing for further review regarding measurement. This is an important consideration, when natural assets are being used to replace historically recognized tangible capital assets in the management of climate related issues, such as for rain water management. At this time, if a municipality as an example creates a structure to be used to manage weather related risks, that structure would be capitalized, however if a municipality uses natural assets to perform the same task, those costs would be expensed.

- The City recommends that the PSAB undertake a project to develop guidance regarding the recognition and measurement of natural assets so that it may be done in a consistent manner, similar to projects under way at the International Public Sector Accounting Standards Board.

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

The City of Toronto has concerns with an effective date of April 1, 2024 to implement PS 1202 Financial Statement Presentation.

Public sector entities are concurrently managing the implementation of several new PSAB accounting standards, including AROs, Revenue Recognition, Financial Instruments, and Intangibles, that require implementation by fiscal years 2023 and 2024. These are unprecedented times when it comes to the volume and complexity of new accounting standards, which require a significant amount of resources to meet the prescribed implementation deadlines. Adding further requirements to that list may not be realistic or sustainable for most public sector organizations, particularly with the added focus on managing through the COVID-19 pandemic.

The City has concerns with PSAB's statement in the basis of conclusions that characterizes the proposed changes as being straight forward to implement because they affect presentation only. Many public sector organizations have financial systems that perform a dual role – budget reporting which includes revenues and expenditures that do not meet the definition of financial statement elements (intercompany charges, contributions to and from reserves) and financial reporting. Such changes will require the review and reconfiguration of existing financial systems and processes to accommodate the revised financial statement presentation requirements. Given pressures on municipal finances, resources may not be immediately approved or available to make the necessary changes. Furthermore the City will need to undertake a significant education process to ensure that users and stakeholders understand what the presentation changes mean.

The City believes that the effective date should be delayed 2-3 years beyond approval/publication as it will help alleviate resourcing pressures and prevent overlap with the current implementation requirements noted above.

In addition, Chapter 10 establishes general presentation concepts, which are supported by the actual financial statement presentation. Given that presentation is how an entity communicates information in its financial statements to meet the financial reporting objective, the City further

Office of the Controller
Metro Hall, 14th Floor
55 John Street
Toronto, Ontario M5V 3C6

Tel: 416-392-8427
Andrew.Flynn@toronto.ca
www.toronto.ca

believes that it would be more practical to adopt the conceptual framework changes at the same time as the reporting model changes being proposed by PSAB. It is the City's view that the overall concepts and principles within the conceptual framework underpin and inform the preparation and presentation of an entity's financial statements.

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
Toronto (Ontario) M5V 3H2

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 « *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.

Veillez 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.

Veillez 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.

COMMENTAIRES GÉNÉRAUX

Les membres sont d'avis que les changements proposés nécessiteront de nombreux reclassements et modifications et que ces changements nécessiteront beaucoup de temps et d'efforts pour les entités du secteur public dont plusieurs ont très peu d'effectifs. Ainsi, les entités qui devront appliquer les nouvelles exigences concernant les instruments financiers au cours des exercices ouverts à compter du 1^{er} avril 2022 auront à appliquer d'autres changements substantiels dans un intervalle de 2 ans.

De plus, les membres sont d'avis que les notes de bas de page qui ont été intégrées dans les propositions complexifient inutilement les textes proposés. De façon générale, les utilisateurs des textes normatifs ne se réfèrent pas à des notes de bas de page lorsque vient le temps d'analyser et de mettre en œuvre une norme. Ils sont d'avis que ces éléments ou notes, s'ils sont jugés importants pour la compréhension de la norme, devraient être expliqués soit dans le corps même de cette norme ou encore dans des modalités d'application en annexe de celle-ci et non en note de bas de page.

QUESTIONS SPÉCIFIQUES DU CCSP

1. *Appuyez-vous le projet de nouvelle norme sur la présentation des états financiers?*

Les membres sont partagés sur la question. Ils ont fait des commentaires et relevé des enjeux au sujet de certains paragraphes inclus dans les propositions qu'ils ont détaillés ci-dessous.

DÉFINITIONS

Passif financier et passif non financier

D'abord des membres sont d'avis que la présence de définitions qui s'écartent de celles incluses dans les autres référentiels comptables canadiens généralement reconnus pour le secteur privé est un enjeu en soi. Ils précisent par exemple que l'enseignement des

universitaires est basé sur les normes internationales et que lorsque des concepts de base, comme des définitions ne sont pas cohérents entre ces référentiels généralement reconnus, cette situation cause des incompréhensions en pratique et des risques d'erreurs. Les membres en cabinet doivent, de leur côté, naviguer entre les différents référentiels applicables à leurs différents types de clients et très peu sont spécialisés dans les normes du secteur public. Ainsi, naviguer dans des référentiels différents est un enjeu qui est amplifié par l'incohérence de certains concepts de base comme des définitions.

Les membres sont toutefois d'avis que des distinctions sont essentielles avec le secteur privé et ils se demandent si ces distinctions ne devraient pas être mieux reflétées dans le choix des mots et par l'utilisation d'expressions différentes de celles utilisées dans les référentiels comptables du secteur privé, pour mieux clarifier ces distinctions. Ils ont plus spécifiquement expliqué leurs propos par un exemple : L'expression « Passif d'instrument financier » dans les propositions, correspond à l'expression « passif financier » dans les autres référentiels comptables généralement reconnus au Canada, alors que l'expression « passif financier » correspond à une toute autre notion dans les propositions, et qu'ainsi ces notions sont très difficiles à comprendre, car elles utilisent des termes trop similaires.

De plus, les membres ne sont pas à l'aise avec les différences apportées entre les définitions d'un passif financier et d'un passif non financier, la première étant basée sur le fait que « le règlement **est prévu** de se faire au moyen d'actifs financiers » alors que la seconde est basée sur le fait que le règlement **ne peut pas** être réglé au moyen d'actifs financiers. Les membres sont d'avis que l'entité a toujours la discrétion de régler un passif par des actifs financiers ou non et que les décisions à cet égard peuvent changer des prévisions initiales dans le temps. Ils croient que la définition d'un passif non financier devrait être plus cohérente avec celle d'un passif financier et ils proposent de modifier cette définition comme suit :

Passif non financier : passif ~~qui ne peut être réglé~~ dont le règlement est prévu de se faire ~~au moyen d'actifs financiers, mais seulement~~ au moyen d'actifs non financiers ou de ressources économiques exclues de la comptabilisation selon le paragraphe SP 1202.071. Il ne s'agit pas d'un besoin futur de ressources financières. Peut prendre la forme d'une obligation de prestation non financière.

Les membres ont aussi analysé leur compréhension de la définition et du concept proposé avec les explications et exemples présentés en annexe de l'exposé-sondage. À ce sujet ils se sont questionnés à propos des « revenus non acquis » présentés dans les passifs financiers dans ces exemples. Selon eux, des revenus non acquis, non gagnés ou reportés ne sont normalement pas réglés au moyen d'actifs financiers, mais plutôt par une ou des prestations non financières. Ils ne comprennent donc pas pourquoi ces éléments n'ont pas été présentés dans les passifs non financiers plutôt que dans les passifs financiers.

PRINCIPES GÉNÉRAUX DE PRÉSENTATION

Image fidèle

Dans leur lettre de commentaires au sujet de l'exposé-sondage sur le cadre conceptuel qui a été transmise distinctement de la présente lettre, les membres ont soulevé un inconfort avec les propositions qui sont énoncées au paragraphe 10.25 du cadre conceptuel. En vertu de ce paragraphe, l'entité du secteur public devait se prononcer sur la conformité ou non au référentiel comptable applicable de certaines informations additionnelles présentées dans les états financiers et cette exigence a été reprise au paragraphe .020 du chapitre SP 1202 proposé.

Ils ont repris ci-dessous ces commentaires qui ont été soulevés concernant l'exposé-sondage sur le cadre conceptuel:

Les membres ne sont pas d'accord avec les indications du paragraphe 10.25. En effet, la responsabilité d'indiquer si les informations présentées dans les états financiers sont conformes ou non aux normes applicables n'est pas du ressort de l'entité qui prépare les états financiers et ne doit pas être prévue dans le cadre conceptuel des normes en comptabilité. Cette responsabilité est celle de l'auditeur qui déterminera l'impact de la situation de non-conformité et communiquera sa conclusion dans son rapport. Les membres ont proposé d'utiliser plutôt le concept d'image fidèle qu'on retrouve dans les IFRS, précisément dans l'IAS 1 Présentation des états financiers et dont ils ont reproduit

les paragraphes ci-dessous. Toutefois ils confirment qu'ils n'ont pas vécu ce genre de situation en pratique.

- 19 Dans les circonstances extrêmement rares où la direction estime que le respect d'une disposition d'une IFRS serait trompeur au point d'être contraire à l'objectif des états financiers décrit dans le [Cadre conceptuel](#), l'entité doit s'écarter de cette disposition de la manière décrite au paragraphe [20](#), si le cadre réglementaire pertinent impose ou n'interdit pas un tel écart.
- 20 Lorsque l'entité s'écarter d'une disposition d'une IFRS selon le paragraphe [19](#), elle doit indiquer :
- (a) que la direction estime que les états financiers donnent une image fidèle de la situation financière de l'entité, de sa performance financière et de ses flux de trésorerie ;
 - (b) qu'elle s'est conformée aux IFRS applicables, à l'exception d'une disposition particulière dont elle s'est écartée afin de parvenir à la présentation d'une image fidèle ;
 - (c) le titre de l'IFRS dont l'entité s'est écartée, la nature de l'écart, y compris le traitement imposé par l'IFRS, la raison pour laquelle ce traitement serait trompeur en la circonstance, au point d'être contraire à l'objectif des états financiers défini dans le [Cadre conceptuel](#), et le traitement appliqué ; et
 - (d) pour chaque période présentée, l'effet financier de l'écart sur chaque élément des états financiers qui aurait été présenté si la disposition avait été respectée.

De plus, les membres sont d'avis qu'on devrait traiter aussi de l'information additionnelle présentée en sus des exigences du référentiel comptable applicable, et de prévoir une indication à l'effet que cette information n'est pas exigée et qu'elle ne fait pas partie des états financiers.

Ils proposent donc que le paragraphe .20 du chapitre SP 1202 proposé tienne compte de ces éléments.

Caractère significatif

Les membres sont d'accord avec le concept, mais ils auraient plutôt souhaité qu'on retrouve le caractère significatif dans les définitions comme cela est fait au paragraphe 1.7 de l'IAS 1 ou encore qu'on fasse référence aux paragraphes 7.40 à 7.44 du cadre conceptuel.

Regroupement

Les membres sont d'avis que la dernière phrase du paragraphe .32 porte à confusion avec le concept de « caractère significatif » du paragraphe .31. Ainsi normalement les éléments qui ne sont pas significatifs n'impliquent pas, selon le concept du paragraphe .31, que des informations additionnelles soient fournies en notes. Pour eux, cette dernière phrase pourrait compromettre le caractère utile des informations additionnelles et impliquer trop d'informations dans les notes complémentaires au sujet d'éléments non significatifs.

ATTEINTE DES OBJECTIFS DES ÉTATS FINANCIERS

État de la situation financière

Les membres constatent que la section concernant l'état de la situation financière réfère très souvent au cadre conceptuel. Or, dans le nouveau cadre conceptuel proposé, il est indiqué que celui-ci ne fait pas partie des PCGR. Ainsi, la référence qui est faite à ce cadre porte à confusion et les membres se questionnent à savoir lequel du cadre conceptuel ou la norme traitant de la présentation a préséance.

De plus, les membres sont au fait de l'existence de discussions nationales et internationales au sujet de la comptabilisation des actifs naturels et ils croient que le CCSP devrait entreprendre un projet ou des discussions à ce sujet. Selon les membres, les paragraphes .71 et .72 pourraient devoir être modifiés dans un avenir rapproché.

État de la situation financière – Passifs financiers et non financiers

Les membres sont d'avis que la notion de passif non financier dans le secteur public, qui s'écarte de la notion incluse dans les autres référentiels comptables canadiens, est difficile à comprendre avec les exemples soulevés dans les paragraphes .081 à .083 et dans les modèles d'états de la situation financière présentés en annexe. Selon eux, la norme proposée ne donne pas d'exemple ni d'explication concernant des revenus non acquis provenant des passifs non financiers et ils jugent que cela est nécessaire pour bien comprendre les concepts. Les membres ont soulevé ci-dessous des exemples de situations dans lesquelles ils ont de la difficulté à conclure à la présence d'un passif financier:

- Une municipalité loue un terrain à un club de soccer moyennant un loyer payé au début de l'entente. Des cours de soccer sont aussi offerts par la municipalité. Dans cette situation, les membres auraient conclu que la prestation de services qui découle de l'entente serait réglée au moyen d'actifs non financiers, ce qui pour eux implique la comptabilisation d'un passif non financier. Selon eux, les textes proposés aux paragraphes .081 à .084 et le paragraphe .086 mèneraient plutôt à la présentation d'un passif financier ce qui ne leur semble pas logique.
- Un organisme du secteur public offre des cours de yoga et les revenus, encaissés au début de l'abonnement, sont reportés et comptabilisés en produits selon l'avancement du temps. Pour les membres, une prestation de services n'implique pas nécessairement que ces obligations seraient acquittées au moyen d'actifs financiers, mais plutôt au moyen d'actifs non financiers comme des immobilisations. Encore ici, les textes des paragraphes .081 à .083 et du paragraphe .086 n'aident pas à clarifier les différences entre un passif financier et non financier.
- Aussi pour les membres, ce ne sont pas tous les montants encaissés qui représentent des dépôts de clients remboursables et selon eux, les obligations de prestations ne sont pas toutes des obligations financières.

Ils sont d'avis que les exigences et les exemples devraient être révisés et clarifiés, de même que les explications sur ces éléments.

Les membres ont aussi soulevé des questions relativement à l'alinéa .087 c). Ils se demandent à quoi ils devraient se référer dans ce type de situation. Ils sont d'avis que ce paragraphe renforce leur questionnement au sujet d'un passif réglé partiellement par de la trésorerie.

État de l'actif financier net ou du passif financier net

D'abord, les membres sont d'avis que l'exigence du paragraphe .102 n'a pas sa place dans un état financier comme tel. Normalement, les rubriques des états financiers ne sont pas expliquées ni dans les états eux-mêmes ni dans les notes aux états financiers, car les utilisateurs sont censés être composés d'utilisateurs avertis. Si cette rubrique devait être expliquée, d'autres rubriques pourraient devoir faire l'objet d'explications additionnelles. De plus, selon eux, cette exigence risque d'apporter une certaine lourdeur

à l'état en tant que tel et de devenir une note standardisée non utile (« boilerplate »). Si le CCSP décide de maintenir l'exigence, ils proposent que les explications soient plutôt présentées dans les notes aux états financiers. Pour eux, d'autres informations qui ne sont pas exigées dans les propositions pourraient être plus utiles comme les jugements importants sous-jacents à l'application des normes applicables.

Concernant l'état de la variation de l'actif financier net ou du passif financier net, les membres croient que la terminologie utilisée risque d'apporter beaucoup de confusion avec l'état de l'actif financier net ou du passif financier net et l'état de l'évolution de l'actif net ou du passif net. Cet état facultatif risque d'être incompris par les utilisateurs en général et confondu avec l'état de l'évolution de l'actif net ou du passif net. Les membres sont d'avis qu'à partir du moment où l'on se dirige sur un modèle qui s'écarte du modèle de base de présentation des états selon les IFRS, le risque d'une mauvaise compréhension est plus grand.

État des résultats

Les membres ont constaté que la terminologie de cet état a été modifiée depuis l'énoncé de concepts et que le paragraphe .115 devrait être modifié en conséquence. Ainsi l'expression « état de l'excédent ou du déficit » devrait être remplacée par « état des résultats ».

Les membres sont d'avis qu'une situation qui est très fréquente pour beaucoup d'entités du secteur public, incluant les OSBL du secteur public, n'a pas été prévue dans les paragraphes .117 à 121 des propositions. En effet, lorsqu'un organisme n'a qu'une seule fonction ou un seul programme, l'état des résultats devrait être, selon eux, présenté directement par objet. La présentation à l'état des résultats par programme et la présentation par voie de notes des charges par objet n'est pas adéquate dans cette situation qui devrait être analysée dans les propositions.

État de l'évolution de l'actif net ou du passif net – Capital-actions

Les membres sont d'avis que l'intitulé de cette section de même que le libellé à utiliser dans l'état financier devrait spécifiquement préciser qu'il s'agit d'un capital-actions émis. Il existe une différence fondamentale entre le capital émis et le capital autorisé et il est

donc important selon eux de le préciser clairement dans tous les paragraphes de cette section et dans l'état financier comme tel.

Les membres sont d'avis, en réponse au paragraphe BC 145 du document intitulé « *Bases des conclusions* », qu'il ne devrait pas être difficile de séparer le capital-actions émis des fonds visant à fournir un capital de départ à des organismes du secteur.

Option de présenter les raisons sous-tendant la variation de l'actif financier net ou du passif financier net

Les membres sont d'avis que les informations additionnelles qui ne sont pas obligatoirement requises par un référentiel comptable sont rarement présentées en pratique dans les états financiers. De plus, selon eux, rien dans les normes n'interdit l'ajout d'information supplémentaire lorsque celle-ci permet d'améliorer la compréhension qu'ont les utilisateurs de ces états. Ainsi, ils jugent que les paragraphes .152 et .153 devraient être retirés.

Si le CCSP maintient ces paragraphes et la possibilité de présenter un tableau de la variation de l'actif financier net ou du passif financier net, les membres sont d'avis que des explications additionnelles plus détaillées devraient être fournies concernant la présentation des comparatifs et plus spécifiquement, car ce tableau est facultatif. Il n'est pas clair pour eux si le tableau devait indiquer uniquement les montants applicables à l'exercice courant ou pour l'exercice courant et les chiffres comparatifs et si le paragraphe .33 s'applique dans ce contexte.

État des flux de trésorerie

Selon les membres, l'objectif visé du paragraphe .165 n'est pas atteint lorsque la méthode indirecte est utilisée. De plus, selon eux, cette méthode demeure la plus utilisée en pratique. Ils sont d'avis que ce paragraphe est superflu.

Aussi, ils ne sont pas d'accord avec l'exemple cité au paragraphe .167 g) des paiements de transfert, car pour eux, il est impossible de conclure que les paiements de transfert passés permettent de prédire les flux de trésorerie futurs.

Les membres se sont questionnés sur les fondements de l'exigence du paragraphe .170, c'est-à-dire à propos des informations additionnelles à fournir au sujet de l'écart entre la charge ou le produit d'intérêt et les flux de trésorerie liés aux intérêts. Ils notent qu'il existe plusieurs autres éléments pour lesquels il existe un écart entre l'élément constaté aux résultats et le montant présenté dans l'état des flux de trésorerie et se questionnent sur les fondements de cette exigence uniquement pour les intérêts. Les membres sont d'avis que cette exigence devrait être retirée.

Les membres se sont questionnés sur la portée du paragraphe .176. Pour eux, la première phrase de ce paragraphe n'est pas claire à savoir si l'on parle d'activités de financement et de levées de fonds comme celles organisées par des organismes sans but lucratif ou plutôt si on vise les activités de financement qui sont normalement présentées dans une section distincte de l'état des flux de trésorerie. En général, les entités du secteur public, autres que les OSBL du secteur public, ne mènent pas des activités de financement, mais présentent des activités de financement dans leur état des flux de trésorerie. Ils jugent que le choix des mots et des expressions est crucial pour permettre une bonne compréhension.

Les membres ont noté des différences avec les IPSAS au sujet de l'information à fournir dans l'état des flux de trésorerie et ils aimeraient savoir pourquoi ces différences ont été maintenues dans les propositions, car selon eux, ces informations auraient dû être incluses dans le chapitre proposé. Par exemple, l'IPSAS 2 – *Cash flows statements*, demande que les flux de trésorerie relatifs aux devises étrangères soient présentés distinctement à l'état des flux de trésorerie (paragraphe .36 à .30). De même, l'IPSAS 2 demande de présenter distinctement les flux de trésorerie provenant des intérêts, dividendes et autres distributions séparément (paragraphe .40 à .43).

De plus, les membres ont noté des divergences dans la pratique au sujet des rubriques sous lesquelles sont présentés certains flux de trésorerie et selon eux, les divergences de pratique militent pour l'ajout de précisions dans le chapitre proposé. Les divergences discutées sont les suivantes :

- Concernant les flux de trésorerie provenant des partenariats, certains utilisent la rubrique « *investissement* » alors que d'autres utilisent plutôt la rubrique « *financement* »;

- Concernant l'encaisse réservée ou restreinte, certains présentent les montants dans la trésorerie et les équivalents de trésorerie alors que d'autres les présentent comme des activités d'investissement.

Communication des cas de non-conformité aux autorisations financières

Les membres sont d'avis que les états financiers ne sont pas le bon endroit pour indiquer si les ressources économiques confiées à une entité du secteur public ont été gérées conformément aux autorisations financières. Selon eux, la conclusion à ce sujet n'a pas nécessairement d'impact sur les états financiers comme tels. Ainsi, ils sont d'avis que les paragraphes .202 à .204 des propositions ne devraient pas être maintenus. Ils réfèrent au commentaire qu'ils ont fait dans le cadre de leur réponse à l'exposé-sondage sur le cadre conceptuel et l'ont repris ci-dessous :

« plusieurs communications des cas de non-conformité se retrouveront dans les rapports annuels ou rapports de gestion et non dans les états financiers eux-mêmes. Ils ont donné des exemples de situations qui n'auront pas d'impact sur les états financiers comme tels : les autorisations de crédit, les situations pour lesquelles une entité présente un déficit alors que la loi interdit aux entités visées de faire un déficit, les dépassements de crédit en cours d'année, mais réglés en fin d'année financière.

Aussi, les normes en certification prévoient les mandats spécifiques de conformité et les rapports à émettre dans les contextes où une autorité demande à un auditeur de se prononcer spécifiquement sur des situations de conformité.

Considérant ces enjeux, les membres croient qu'on devrait, dans ce chapitre et précisément aux paragraphes .29 et .30, ne cerner que les autorisations législatives applicables aux états financiers spécifiquement... »

INFORMATIONS SUR LES FONDS DE RÉSERVES

Certains membres se questionnent sur la pertinence de conserver la Note d'orientation du secteur public (NOSP) 4 *Fonds et réserves*. Pour eux, si les exigences des présentes propositions du chapitre 1202 permettent d'inclure des sous-totaux pertinents dans les

états financiers, il ne devrait pas avoir lieu de maintenir la NOSP 4 en vigueur et d'interdire certaines présentations. Ces membres proposent au CCSP de s'assurer que la NOSP 4 soit ajustée selon l'évolution de la stratégie pour les OSBLSP.

Pour d'autres membres, il faut être prudent avec l'inclusion de sous-totaux dans les états financiers et il faut éviter que ces états présentent des mesures non conformes au PCGR. Ces membres précisent que certaines réserves et affectations internes sont souvent médiatisées. Ils croient que la présence de trop de sous-totaux peut miner la compréhension des états financiers par les utilisateurs et ils sont préoccupés de cette situation.

ANNEXES – EXEMPLES D'ÉTATS FINANCIERS

Selon les membres, les exemples présentés en annexes sont trop similaires entre eux.

Ils auraient aimé que les exemples incluent d'autres éléments comme les suivants :

- Exemple de note pour un budget non présenté;
- Autres éléments à divulguer à l'état des flux de trésorerie;
- Revenus non acquis classés dans les passifs non financiers;
- Actifs grevés d'affectations d'origine externe autres que les dotations perpétuelles, qui doivent être classées dans les actifs non financiers;
- Passifs non financiers qui seront réglés par des actifs autres que financiers.

De plus, ils auraient souhaité que l'annexe F présente des chiffres afin de leur permettre de mieux comprendre les relations entre les tableaux présentés, comme cela a été fait pour les annexes A à E.

2. Êtes-vous d'accord pour que la date d'application de la norme sur la présentation des états financiers, c'est-à-dire le chapitre SP 1202, soit le 1er avril 2024?

Plusieurs ministères au Québec requièrent la présentation des états financiers des entités du secteur public dans des plateformes particulières qui nécessitent une programmation qui peut être complexe. C'est le cas par exemple des réseaux de la santé et des affaires municipales.

Les membres ont consulté des représentants de ministères qui seront visés par les changements et certains d'entre eux demandent une période d'au moins 24 mois entre la date de publication de la norme définitive et la date de sa mise en application pour être en mesure d'effectuer les changements dans leurs plateformes respectives. Il faut aussi rappeler que plusieurs entités auront à appliquer les normes concernant les instruments financiers pour les exercices débutant le 1^{er} avril 2022, comme cela a été souligné dans les commentaires généraux, ce qui ne sera pas une mince tâche.

Antonella Risi

From: Michael Puskaric
Sent: Monday, July 5, 2021 10:29 AM
To: Brent White
Cc: Antonella Risi; Martha Jones Denning
Subject: RE: Response to Exposure Draft PS1202

Follow Up Flag: Follow up
Flag Status: Flagged

Hello Brent, thank you for your response and your feedback is greatly appreciated.

Best regards,

Michael

Michael A. Puskaric, MBA, CPA, CMA
Director / Directeur
Public Sector Accounting / Comptabilité du secteur public
Public Sector Accounting Board / Conseil sur la comptabilité dans le secteur public
Tel / Tél. : 416.204.3451 M. 647.924.4281 F. 416.204.3412

mpuskaric@psabcanada.ca
www.frascanada.ca | connect.frascanada.ca



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From: Brent White <bwhite@mta.ca>
Sent: Wednesday, June 30, 2021 9:38 PM
To: Michael Puskaric <mpuskaric@psabcanada.ca>
Subject: Response to Exposure Draft PS1202

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Dear Michael Puskaric:

I am writing my response to the Exposure Draft "Financial Statement Presentation, Proposed Section PS 1202." On your first question "do you agree with the proposed financial statement presentation standard?" I am providing comments on one specific area where I do not agree with the concepts expressed. With respect to your second question "do you agree with the effective date of April 1, 2024?" I am non-committal until I see how the dust settles after the review of responses to this current draft document.

My main concern with the proposed PS 1202 is with the disappearance of the term "net debt," and its replacement by "net financial liabilities." I am concerned about moving away from the term "net debt" which has had broad acceptance as a key - if not the key - indicator by the users, (citizens and our elected/appointed representatives). I fear that replacing the term "net debt" will decrease the understandability for the users. On page 4 of the document I note "the Board believes that the proposed reporting model meets user needs." I'm not sure how moving to a new term from one which has a long-established tradition meets the needs of most users.

I strongly urge you to reconsider.

Brent White
Mount Allison University



Commission de l'administration publique

PAR COURRIEL

Québec, le 22 juin 2021

Monsieur Clyde MacLellan
Président
Conseil sur la comptabilité dans le secteur public
cmaclellan@psabcanada.ca

Monsieur le Président,

Je vous écris en réponse à votre courriel du 20 mai sur les modifications que compte apporter le Conseil sur la comptabilité dans le secteur public aux normes comptables pour le secteur public. À cet égard, vous sollicitez l'avis des membres de la Commission de l'administration publique.

Je tiens d'abord à vous remercier de nous consulter sur ce processus. En effet, la Commission de l'administration publique est affectée à l'examen de la reddition de comptes de l'Administration, notamment par l'analyse des engagements financiers des ministères et des organismes budgétaires.

Actuellement, l'examen des états financiers consolidés du gouvernement du Québec ne figure pas dans la liste des mandats de la Commission de l'administration publique ni dans celle d'aucune autre commission parlementaire de l'Assemblée nationale. Ayant entendu à quelques reprises les recommandations formulées par le Vérificateur général du Québec, la Commission de l'administration publique s'est engagée à amorcer une réflexion sur l'opportunité qu'une commission parlementaire examine les états financiers consolidés du gouvernement annuellement. Héritière des usages et principales fonctions d'un comité de comptes publics de tradition britannique, la Commission de l'administration publique pourrait être un forum approprié pour assumer un tel mandat.

Édifice Pamphile-Le May
1035, rue des Parlementaires
3^e étage
Québec (Québec) G1A 1A3
Téléphone : 418 643-2722
Télécopieur : 418 643-0248
cap@assnat.qc.ca



Commission de l'administration publique

Selon l'évolution de cette réflexion, les membres de la Commission et le personnel de soutien devraient être initiés aux différents volets inhérents à l'examen des états financiers consolidés, dont les normes comptables applicables. Le cas échéant, j'espère que nous pourrions trouver en votre organisation un partenaire afin de nous outiller adéquatement pour réaliser les mandats qui nous seraient confiés.

Je vous prie d'agréer, Monsieur le Président, mes sentiments les meilleurs.

Le président de la Commission,

M. Carlos J. Leitão
Député de Robert-Baldwin

c. c. M. Jean-François Simard, président de la Commission des finances publiques



Treasury Board Secretariat

Office of the Provincial Comptroller

200-386 Broadway, Winnipeg, Manitoba, Canada R3C 3R6

www.manitoba.ca

July 2, 2021

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

Dear Mr. Puskaric:

Re: PSAB Exposure Draft: PS 1202 Financial Statement Presentation

We would like to thank the Public Sector Accounting Board for the opportunity to comment on the Exposure Draft (ED) on *PS 1202 Financial Statement Presentation*.

The Province of Manitoba (POM) agrees with the proposed new financial statement presentation standard, PS 1202. The proposed reporting model provides understandable financial statements for the public, and reports only elements that the public recognizes. The model is forward-looking and can be used by all public sector entities, including governments and government not-for-profit organizations. The model is able to deal with current issues such as re-measurements, and future issues such as endowments.

The POM feels that the proposed implementation date of April 1, 2024 is too soon after the implementation of PS 3450 Financial Instruments and PS 3280 Asset Retirement Obligations on April 1, 2022, and PS 3400 Revenue on April 1, 2023. Implementing the new reporting model, one year after the implementation of three major standards, may be too demanding of the accounting staff of public sector entities.

Relocation of the Net Financial Liabilities (previously known as Net Debt) or Net Financial Assets to its own Statement:

The Province of Manitoba agrees with the relocation of the net financial liabilities (or net debt) to its own statement. However, we do not agree with all of the reasons expressed in the ED. We do not agree that the net debt is now more prominently displayed in its own statement, compared to being a prominent balance on the statement of financial position. The statement of net financial assets and liabilities may be better understood by users, but will require significant public education efforts by the Province and other sovereign governments to familiarize the public with the changes. It has taken many years to get to a level of understanding by both the public and credit rating agencies on the current presentation, and will require a significant effort to publicly

justify the change in reporting format while continuing to instill confidence that the government is not simply changing the metric for reasons other than financial reporting transparency and usefulness.

The POM agrees that the statement of change in the net financial assets or financial liabilities will also remove the need for the statement of re-measurement gains and losses. This will retain focus on the statement of operations as the entity's main accountability measure for program services and delivery.

With the statement of net financial assets or net financial liabilities, it is easier to explain the importance of the net debt figure. A net financial liabilities position represents a lien on future financial assets and affects the entity's ability to finance activities, provide services and settle financial liabilities in the future. The proposed PS 1202 allows the preparer to reconcile the changes between the opening net financial assets to the ending balance as outlined in Appendix F in the ED.

Financial and Non-Financial Liabilities:

A non-financial liability is a liability that cannot be settled through the use of financial assets. It can only be settled through the use of non-financial assets or economic resources excluded from recognition. A non-financial liability does not represent a future financial resource requirement. Non-financial liabilities include but are not limited to non-financial performance obligations.

The exposure draft includes the component of non-financial liabilities that will be helpful to users in understanding the economic substance of restricted government transfers used for capital financing. PSAB has noted that a liability exists when government is required by the stipulations of a transfer agreement. The POM's public communications and actions, and the substance of the transfer agreement to use the transfer for delivery of services over subsequent fiscal periods. The proposed accounting treatment will provide enhanced accountability and transparency of these transactions.

New Budget Requirements:

The POM agrees with the new budget requirements. The comparison of actual financial performance with that budgeted is a fundamental component of financial accountability.

The original budget is the budget that was approved by the appropriate authority, generally at or near the beginning of the accounting period. It is the budget for which an entity is held accountable. There may be many authorities that can approve a budget. It may be both the board of directors or the controlling government that can approve the budget. The budget presented in the financial statements should include a note that the other authority did not approve the presented budget and the entity approved its own budget. When the scope of the reporting entity changes during the accounting period the original approved budget would be presented in the financial statements.

An amended budget would only be presented for actual-to-budget comparison purposes in circumstances in which the public has chosen a change in governance and that new governing body has approved an amended budget.

An amended approved budget may be presented for actual-to-budget comparison purposes by a government only when there is an election and the newly elected government prepares a new

budget that is approved by the legislature. Another appropriate time to present an amended budget would be following an administrative re-organization or other restructuring event.

The new government would determine if presenting the new amended approved budget or the original approved budget in its financial statements for comparison purposes would best serve the accountability objective. The amended approved budget of a new government may affect the budgets of its controlled entities.

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,

A handwritten signature in black ink, appearing to be 'AS', written in a cursive style.

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

To: Michael Puskaric <mpuskaric@psabcanada.ca>

Cc: Kala Harris <kharris@gfoabc.ca>

Subject: Exploring PSAB's Exposure Draft "Financial Statement Presentation, Proposed Section PS 1202"

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My apologies for the late comments. COVID and vacation timing issues. I hope they help.

[Webinar—Exploring PSAB's Exposure Draft "Financial Statement Presentation, Proposed Section PS 1202" - YouTube](#)

If I heard and am interpreting this correctly...

1. Cash received from the Feds or Provinces to acquire or develop an asset will result in a financial liability until such time as the asset is bought or built. As the cash is used to buy or build it is recognized in revenue. Eg: If it takes three years to built then there is potential for it to take that long to bring it into revenue. Odds are local governments will draw that funding source down first to clean up their balance sheets.
2. Transfer of a tangible capital from one province to another become an asset of the receiving province and is recorded as a non-financial liability then that liability is amortized over the life of the assets equal to depreciation of said asset (eg: the presentation used a plane to fight fires).
3. Cash received from the Feds or Provinces to acquire or develop an asset will result in a financial liability until such time as the asset is bought or built. If there are stipulations (or otherwise) to use it to provide future services the cash is used to buy or build it is NOT recognized in revenue. Rather it becomes a non-financial liability that must be amortized over the life of the asset (effectively matching depreciation).

From a local government perspective:

- One above makes sense.
- Two and Three above speak to the dysfunction of government transfers. It is obvious when a local bridge gets built with Fed and Provincial funding support it will be in service for 75 years; it's going nowhere; no one needs to tell a local government via a condition requirement. That condition is nothing more than an artefact of invoking an unnecessarily complex accounting standard and should it make it into PS 1202, it should not be applicable for transfers to local governments.

Local government infrastructure is the foundation upon which society and our ways of life are built. It is not about the funding but the construction and consumption of the asset. For that we have engineering and community planning best practices. How does PSAB find alignment of standards that benefit society (and across the other professions) without adding complexity? The issues here again appear to be driven by Federal and Provincial budget balancing when the focus should be on sustainable service delivery.

In my view matching funding amortization to assets does not add the value PSAB think it does (at least not at the local government level). 60% of Canadian infrastructure is owned by local governments. Amortization of funding adds not only complexity but confusion. Perhaps the big cities have the staff and resources to handle

such complexities but there are approximate 4000 local governments in Canada and most are small and don't have sufficient staff resources. From a system thinking perspective there appears to be some insensitivity to local conditions on the ground in these standards. When you have few staff and your CAO and CFO lead emergency operations they risk not being at their day jobs for potentially months on end. It is mainly those same small rural governments that need provincial and federal funding supports to maintain a Canadian standard of living. Let's make sure we put them first when setting standards.

Andy

Andy Wardell, Dipl T, CPA, CGA, MA
General Manager, Finance & Chief Financial Officer



355 West Queens Road
North Vancouver, BC V7N 4N5

Wardella@dnv.org

Direct: 604-990-2232

Cell: 604-349-2827

Fax: 604-987-7160



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Classification of Liabilities from Government Transfers Received

Non-Financial Liabilities

• Operating transfer

→ Financial liability

A liability that cannot be settled through the use of financial assets but only through the use of non-financial assets or economic resources excluded from recognition

Liabilities settled through the use of a tangible capital asset acquired through a transfer

P3 obligations arising from user pay model

Non-financial performance obligations to provide access

Capital Transfers to Build and Use

Receipt of transfer:

Dr. Cash	300	
	Cr. Financial Liability	300

Each of Years 1-3 over the 3 years as the asset is built:

Dr. Tangible Capital Asset	100	
	Cr. Cash	100
Dr. Financial Liability	100	
	Cr. Non-financial liability	100

From Year 4 onwards, each year over 30 years as asset is used to provide services:

Dr. Non-Financial Liability	10	
	Cr. Revenue	10

From: Andy Wardell

Sent: May 19, 2021 2:06 PM

To: Elio Iorio <lorioE@dnv.org>; Jaskaran Gill <GillJ@dnv.org>; Rick Danyluk <DanylukR@dnv.org>; Daniel So <SoD@dnv.org>; Gary Mah <MahG@dnv.org>

Subject: Exploring PSAB's Exposure Draft "Financial Statement Presentation, Proposed Section PS 1202"

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Andy Wardell, Dipl T, CPA, CGA, MA

General Manager, Finance & Chief Financial Officer



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North Vancouver, BC V7N 4N5

Wardella@dnv.org

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

June 16, 2021

Dear Michael Puskaric,

RE: Letter of Support for MFOA's Submission Exposure Draft – The Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202

I am writing to provide comments in support of the Municipal Finance Officers' Association of Ontario's submission to the Public Sector Accounting Board's (PSAB) Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector and Exposure Draft for Financial Statement Presentation, Proposed Section PS 1202.

As the CFO and City Treasurer of the City of Windsor, I believe the updated conceptual framework and accompanying financial statement presentation should be grounded in the principles of promoting accountability, promoting transparency, and not adding complexity for the preparers and users of financial statements. Public sector enterprises, in particular municipal governments, understand the importance of financial reporting as an accountability measure to the general public and other levels of government. However, as identified in MFOA's submission to PSAB, some of the proposed changes within the Exposure Drafts carry unintended consequences of adding confusion and complexity for both preparers and users of financial statements.

To successfully update the Conceptual Framework and Financial Statement Presentation, I support MFOA's recommendations:

1. Amend Chapter Two of the Conceptual Framework to clarify the goal of revising the characteristics of public sector entities
2. Amend paragraph 2.69 to expand the definition of longevity as a characteristic of public sector entities to provide more detail on what the term encompasses
3. Amend the definition of unique governance structure in paragraph 2.37 to make reference to public sector entities' unique interdependency on other levels of government to fulfill their obligation to serve the public
4. Amend paragraphs 2.65-2.67 to provide clarification to non-exchange transactions, in particular, within the context of the volume of non-exchange transactions

5. Amend paragraph 2.19(C) to remove the word “generally” from the description of taxation
6. Further clarification is needed within the proposal for public sector entities to communicate that it is not the intent of PSAB to alter the way in which municipal budgets are currently prepared. Rather, it should be clearly stated that a secondary budget summary or some other means of communication is recommended, clearly providing information as required under O. Reg. 284/09 and any further information as may be deemed necessary, that transitions the traditional budget document such that it can be presented on the same basis as the financial statements
7. Reconsideration of the timing of PS 1201 and PS 1202 and/or consider blending the two reporting models to limit the number and frequency of changes that will be required
8. Amend paragraph 3.20 so labour force only includes recognition of value based on current usage and payment for services
9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources
10. Amend paragraphs 7.08-7.11 to maintain the term “reliability” instead of “faithful representation”
11. The terms “economic resources” and “economic obligations” are not as intuitive as the terms “assets” and “liabilities” for users of financial statements. More clarity should be provided in the definitions under the Glossary
12. Amend paragraphs 9.37-9.40 to provide clarification on the concept of Going Concern to add the potential for public sector entities to end through sale, amalgamation, etc.
13. Replace “accumulated surplus or deficit” with “accumulated results of operations” in PS 1202 in order to reduce inherent biases by users of financial statements
14. Amend paragraph .005 in PS 1202 to provide clarification on the differences between financial and non-financial assets and liabilities

Please note that, within the municipal sector, the budget document is deemed to be the most important financial document produced by municipalities. Coupled with regular financial reporting, the budget document supersedes the value of the financial statements to municipal councils in almost all circumstances. Public sector entities share the common goal of providing accountability and transparency to the general public, but time, clarity, and resources are required for meaningful work to be completed. Should you wish to follow up on this letter, please contact Dan Seguin – Deputy Treasurer of Financial Accounting and Corporate Controls (dseguin@citywindsor.ca).

Sincerely,


FOR Joe Mancina
CFO and City Treasurer

cc. Donna Herridge, Municipal Finance Officers’ Association of Ontario (donna@mfoa.on.ca)
cc Jason Reynar, CAO, City of Windsor (caodept@citywindsor.ca)