



# Exposure Draft

## Consequential Amendments Arising from the Proposed Conceptual Framework

January 2021

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COMMENTS TO PSAB MUST BE RECEIVED BY  
MAY 12, 2021

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We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by taking part in the [Connect.FRASCanada.ca](https://connect.frascanada.ca) project or submitting a comment letter addressed to:

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This Exposure Draft reflects proposals made by the Public Sector Accounting Board (PSAB).

Individuals, governments and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments PSAB receives will be available on the website shortly after the comment deadline unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

## INTRODUCTION

In its separate Exposure Draft, "[Conceptual Framework for Financial Reporting in the Public Sector](#)," published at the same time as this Exposure Draft, the Public Sector Accounting Board (PSAB) sets out the proposals for a revised Conceptual Framework for Financial Reporting (the "Conceptual Framework"). PSAB proposes, subject to comments received following exposure, to amend the CPA Canada Public Sector Accounting (PSA) Handbook as set out in this Exposure Draft to be consistent with the proposed Conceptual Framework.

This Exposure Draft should be read after the Exposure Draft, "[The Conceptual Framework for Financial Reporting in the Public Sector](#)."

## MAIN FEATURES OF THE EXPOSURE DRAFT

The main features of the Exposure Draft are as follows:

- withdrawal of the existing conceptual framework;
- amendments to references to the existing conceptual framework in the PSA Handbook;
- amendments to the general application standards LIABILITIES, Section PS 3200, and ASSETS, Section PS 3210;
- amendments to REVENUE, Section PS 3400, for refinements to the definition of "revenue";
- amendments to the "Introduction to Public Sector Accounting Standards";
- amendments to DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100;
- amendments to references to "measurement uncertainty";
- amendments to references to "service capacity";
- amendments to references to "reliability"; and
- revision of the definition of "materiality."

Many other minor consequential amendments could be made to the PSA Handbook to be consistent with the proposed Conceptual Framework, such as amending references to "presentation and disclosure".<sup>1</sup> However, these will be reviewed through PSAB's annual improvement process.

NOTE: The PSA Handbook Sections amended by this Exposure Draft apply to public sector entities that prepare general purpose financial statements in accordance with the PSA Handbook as indicated in the Introduction to Public Sector Accounting Standards. Amendments have not been made to update these Sections to replace "government" with "public sector entity". In paragraph 20 of its Basis for Conclusions, "2018-2019 Annual Improvements," PSAB explained that:

PSAB considered that amending all PSA Handbook Sections to update the term "government" would be beyond the scope of annual improvements, given the significance of the undertaking. Instead, the Board agreed to update this terminology incrementally when standards and other guidance are updated as part of a given annual improvement cycle.

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<sup>1</sup> Chapter 10 of the proposed Conceptual Framework indicates that presentation includes disclosure. Therefore, references to "presentation and disclosure" need to be amended.

## IMPLICATIONS OF THE PROPOSALS

The proposed consequential amendments are editorial in nature. They do not:

- propose a new principle;
- change an existing principle; or
- change practice.

## TIMING OF APPLICATION

PSAB expects to issue the final amendments after it finalizes the proposed Conceptual Framework. Like the Conceptual Framework, the amendments will be effective immediately when issued.

## COMMENTS REQUESTED

PSAB welcomes comments from individuals, governments and organizations.

PSAB is seeking responses to the following question:

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

Comment on this document by taking part in the [Connect.FRASCanada.ca](https://connect.frascanada.ca) [project](#) or submitting a [comment letter](#).

Detailed comments are most helpful if they relate to a specific concept, paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

**The deadline for providing your comments to PSAB is May 12, 2021.**

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## CONSEQUENTIAL AMENDMENTS ARISING FROM THE PROPOSED CONCEPTUAL FRAMEWORK

The PSA Handbook would be amended as indicated in this Exposure Draft. Additional text is denoted by underlining and deleted text by strikethrough. In some instances, due to the repetitive nature of the proposed amendments, only a list of the affected Sections or paragraphs is provided. For details of all the specific proposed amendments, please refer to the document "[Detailed Amendments Proposed in the Exposure Draft, 'Consequential Amendments Arising from the Proposed Conceptual Framework.'](#)"

### Withdrawal of the existing conceptual framework

FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, would be withdrawn from the PSA Handbook and replaced with the proposed Conceptual Framework.

### Amending references to the existing conceptual framework in the PSA Handbook

As a result of withdrawing Section PS 1000, the references to the Section will be replaced with specific chapter references or general references to the proposed Conceptual Framework in the following Sections:

- INTRODUCTION TO PUBLIC SECTOR ACCOUNTING STANDARDS, paragraph .20;
- GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.05;
- ACCOUNTING CHANGES, paragraph PS 2120.05, note 1;
- FIRST-TIME ADOPTION, paragraph PS 2125.11;
- SEGMENT DISCLOSURES, paragraph PS 2700.09(c);
- LIABILITIES, paragraph PS 3200.01(a);
- ASSETS, paragraph PS 3210.01(a);
- LIABILITY FOR CONTAMINATED SITES, paragraphs PS 3260.03, PS 3260.35 and PS 3260.B13;
- ASSET RETIREMENT OBLIGATIONS, paragraph PS 3280.02;
- LOAN GUARANTEES, paragraph PS 3310.06, note 2;
- REVENUE, paragraphs PS 3400.14 and PS 3400.65;
- GOVERNMENT TRANSFERS, paragraph PS 3410.34(b), paragraph PS 3410.10, note 6, and paragraph PS 3410.13, note 7;
- INTER-ENTITY TRANSACTIONS, paragraph PS 3420.09;
- RESTRUCTURING TRANSACTIONS, paragraph PS 3430.22;
- FINANCIAL INSTRUMENTS, paragraphs PS 3450.092 and PS 3450.A55;
- TAX REVENUE, paragraphs PS 3510.08-.09;
- INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS, paragraph .02, the first row in the chart below paragraph .04 and note 2;

- FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph PS 4200.02;
- COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph PS 4240.04;
- SALE-LEASEBACK TRANSACTIONS, paragraph PSG-5.8; and
- PURCHASED INTANGIBLES, paragraphs PSG-8.6, 7(a) and 7(c).

Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. Only the affected Sections are listed here. For a detailed copy of these proposed amendments, please refer to the document "[Detailed Amendments Proposed in the Exposure Draft, 'Consequential Amendments Arising from the Proposed Conceptual Framework.'](#)"

In the following Sections, references to Section PS 1000 would be replaced with references to proposed FINANCIAL STATEMENT PRESENTATION, Section PS 1202:

- LOANS RECEIVABLE, paragraph PS 3050.05; and
- GOVERNMENT TRANSFERS, paragraph PS 3410.05(e), note 4.

As a result of withdrawing Section PS 1100, references to FINANCIAL STATEMENT OBJECTIVES, Section PS 1100 would be replaced with general references to the proposed Conceptual Framework in the following Sections:

- RETIREMENT BENEFITS, paragraph PS 3250.005; and
- INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS, delete the second row in the chart because the first row would be amended to show the proposed Conceptual Framework is applied.

Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. Only the affected Sections are listed here. For a detailed copy of these proposed amendments, please refer to the document "[Detailed Amendments Proposed in the Exposure Draft, 'Consequential Amendments Arising from the Proposed Conceptual Framework.'](#)"

In GOVERNMENT REPORTING ENTITY, paragraph PS 1300.03, the following consequential amendments are proposed:

### Purpose and Scope

...

- .03 ~~FINANCIAL STATEMENT OBJECTIVES, Section PS 1100~~ Chapter 6 of the Conceptual Framework, states that government financial statements should provide an accounting of the full nature and extent of the financial affairs of an entity. Financial statements should also account for and the economic resources that an entity controls and the economic obligations it must settle ~~the government controls~~, including those related to the activities of its components and controlled organizations government agencies and enterprises. ~~This Section~~ The Conceptual Framework also states that ~~these~~ financial statements are a principal means fundamental component of the financial reporting of an entity. Through its financial statements by which a government demonstrates its accountability for the financial affairs and resources entrusted to it. Financial statements ~~and~~ should also provide information useful in evaluating a government's performance in the management of its financial affairs and resources.

## Amending the general application standards

Amendments to the general application standards LIABILITIES, Section PS 3200, and ASSETS, Section PS 3210, are proposed for the following reasons:

- make the definitions and essential characteristics of an asset and a liability consistent with those in Chapter 8 of the proposed Conceptual Framework;
- replace references to “transaction(s) or event(s)” with “transaction(s) or other event(s)” or “event(s)” where applicable to make them consistent with the clarification introduced in the proposed Conceptual Framework that transactions are a subset of events;
- insert a footnote recognizing that “transactions are a subset of events” consistent with the language in the proposed Conceptual Framework; and
- insert “economic” before “obligations” where applicable as the proposed Conceptual Framework specifies that liabilities are economic obligations in the same way that assets are economic resources.

In Section PS 3200, “government” will be replaced with “public sector entity” or “entity” where applicable as this Section applies to all public sector entities. As a general application standard that amplifies the characteristics of the liability definition set out in Chapter 8 of the proposed Conceptual Framework, Section PS 3200 should refer to “public sector entity” rather than “government”. Section PS 3210 was issued after Section PS 3200 and already refers to “public sector entity” or “entity” rather than “government”.

The following amendments are also proposed to Section PS 3200:

### LIABILITIES

- .04 Liabilities arise from many types of economic obligations. ~~Economic obligations~~ Obligations result in an entity ~~an entity government~~ being bound or committed to a particular course of action. They can arise from:
- ...
- (b) legislation:
- (i) another government’s legislation (for example, environmental legislation of one level of government could place legal obligations on another government or one of its components or controlled entities to prevent, abate or clean up environmental damage);
- (e) (ii) a government’s own legislation (for example, legislation may require the government or one of its components or controlled entities to make transfers to organizations and individuals that meet certain criteria set out in that legislation);
- (d) (c) constructive obligations (that is, those that can be inferred from the facts in a particular situation); and
- (e) (d) equitable obligations (that is, those that are based on ethical or moral considerations).
- ...

Note 2 was added to paragraph PS 3200.06 that states “Reference to the term ‘obligation’ in the remainder of the PSA Handbook is considered to refer to ‘economic obligation’ as described in Chapter 8 of the Conceptual Framework.”

...



### Sacrifice of economic benefits

...

- .19 The economic obligation to sacrifice economic benefits must be to a third party. It is necessary that the third party entity or individual exist at the financial statement date. It is not necessary, however, for the entity government to know the specific identity of the party or parties involved, as the economic obligation may be to the public at large or to a specific group of recipients.

...

### Past transactions and other events

...

- .25 The existence of another government's legislation ~~on its own~~ is not an obligating transaction or other event, on its own. Environmental legislation, for example, may establish basic rules that, if not complied with, can result in a present economic obligation. However, normally it is the occurrence of environmental damage that is the obligating transaction or other event.
- .26 The existence of a government's own legislation containing details of ~~the its government's~~ policy in relation to a particular program is not an obligating transaction or other event for the government or its components or organizations:
- (a) for programs such as entitlements until recipients meet the eligibility criteria;
  - (b) for programs that provide relief assistance to natural disaster victims until such a disaster occurs.

An amendment to the definition of a liability, which is in the following Sections, is proposed, consistent with the definition in the proposed Conceptual Framework:

- RETIREMENT BENEFITS, Section PS 3250, Glossary; and
- LOAN GUARANTEES, paragraph PS 3310.06.

Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. Only the affected Sections are listed. For a detailed copy of these proposed amendments, please refer to the document "[Detailed Amendments Proposed in the Exposure Draft, 'Consequential Amendments Arising from the Proposed Conceptual Framework.'](#)"

## Amending Section PS 3400

Proposed amendments to paragraphs PS 3400.02 and PS 3400.27 would adopt the refinements in the revenue and liability definitions proposed in Chapter 8 of the proposed Conceptual Framework. Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. Only the affected paragraphs are listed. For a detailed copy of these proposed amendments, please refer to the document "[Detailed Amendments Proposed in the Exposure Draft, 'Consequential Amendments Arising from the Proposed Conceptual Framework.'](#)"

## Amending the "Introduction to Public Sector Accounting Standards"

PSAB proposes to amend the title "Introduction to Public Sector Accounting Standards" to "Introduction to the Public Sector Accounting Handbook" (the Introduction). The Introduction applies to the entire PSA Handbook, not only the public sector accounting standards that form generally accepted accounting principles (GAAP). The proposed Conceptual Framework would follow the Introduction.

The existing conceptual framework is set out in the same format as a standard in Section PS 1000 and parts of Section PS 1100. This has resulted in some confusion as to whether the conceptual framework

forms part of public sector accounting standards and so, part of GAAP. The conceptual framework does not form part of GAAP. However, it is the foundation for GAAP and the reference for developing new standards when GAAP is silent. PSAB concluded that renaming the Introduction would help clarify the status of the Conceptual Framework.

PSAB proposes amendments to the following paragraphs of the Introduction to include the term “Conceptual Framework”:

- paragraph .11;
- paragraphs .14-.15; and
- paragraphs .17-.24.

Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. Only the affected paragraphs are listed. For a detailed copy of these proposed amendments, please refer to the document [“Detailed Amendments Proposed in the Exposure Draft, “Consequential Amendments Arising from the Proposed Conceptual Framework.”](#)”

As a result of amending the Introduction’s title, references to the Introduction would be amended in the following Sections:

- DISCLOSURE OF ACCOUNTING POLICIES, paragraph PS 2100.07;
- BASIC PRINCIPLES OF CONSOLIDATION, paragraph PS 2500.04(c) and paragraph PS 2500.04(e), note 1;
- SEGMENT DISCLOSURES, paragraph PS 2700.23;
- INTERESTS IN PARTNERSHIPS, paragraph PS 3060.30, note 5;
- INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, paragraph PS 3070.03(d), note 1; and
- INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS, paragraph .01.

Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. Only the affected Sections are listed here. For a detailed copy of these proposed amendments, please refer to the document [“Detailed Amendments Proposed in the Exposure Draft, “Consequential Amendments Arising from the Proposed Conceptual Framework.”](#)”

Paragraph PS 2700.23 also includes the following proposed amendments:

### **SEGMENT ACCOUNTING POLICIES**

...

- .23 For purposes of their financial reporting, government organizations base their accounting policies on the Conceptual Framework and standards of the CPA Canada Handbook – Accounting or the CPA Canada PSA Handbook as directed in the Introduction to the Public Sector Accounting Handbook-Standards. For purposes of segment reporting, all accounting policies, other than those for government business enterprises, would be conformed to the accounting policies adopted for preparing and presenting the consolidated financial statements of the government. These would be the Conceptual Framework and standards of the CPA Canada PSA Handbook.

## Amending Section PS 2100

The proposed Conceptual Framework considers the importance of notes, including the disclosure of accounting policies. As a result, PSAB concluded that certain proposed consequential amendments were required to Section PS 2100 to:

- include references to digital technology and remove certain restrictions where technology can assist making the disclosure and financial statements more understandable; and
- replace the references to “the considerations” with “the qualitative characteristics and related considerations” in Chapter 7 of the proposed Conceptual Framework.

The following consequential amendments are proposed:

### DISCLOSURE

.02 ~~There are a number of alternative accounting policies that may be applied to similar items. Because alternative accounting policies can produce significantly different results, a~~ A description of the accounting policies is necessary for the reader to interpret the financial statements and to become aware of differences when comparing them with the statements of similar entities. The description is an integral part of the financial statements since it is necessary for their interpretation. It should be concise ~~or it may not be read~~, yet be clear to facilitate understanding and consistent interpretation. The description of accounting policies would not include amounts, or analytical data ~~or cross-references to specific items~~. Such information would be included in other notes to the financial statements.

...

.04 Appropriate accounting policies are those that result in fair note disclosure of financial information. It is important that accounting policies be selected to meet this objective. Fair note disclosure is not separable from fair presentation of financial statements generally, because presentation includes disclosure. Classification and presentation on the face of the financial statements are augmented and supported by the accompanying notes. The qualitative characteristics and the related considerations, as discussed in Chapter 7 of the Conceptual Framework, will be taken into account when selecting accounting policies. There are a number of general considerations involved in this selection, including prudence, substance over form and materiality:

- ~~(a) Prudence requires that inevitable uncertainties surrounding many transactions be recognized and that the policy selected be directed toward an unbiased result that is neither overly optimistic nor pessimistic.~~
- ~~(b) Substance over form requires that transactions and other events be accounted for and presented in accordance with their financial reality.~~
- ~~(c) Materiality requires taking into account the significance of an item to users of financial statements.~~

...

### PRESENTATION

...

.12 The use of technology may allow details of significant accounting policies related to individual financial statement items to be disclosed with the relevant note for each item as long as cross-references to such details are included in a single significant accounting policy note.

## Amending references to “measurement uncertainty”

Chapter 9 of the proposed Conceptual Framework discusses measurement uncertainty. It states that measurement uncertainty includes realization uncertainty and estimation uncertainty. However, MEASUREMENT UNCERTAINTY, Section PS 2130, does not deal with realization uncertainty, only estimation uncertainty. As a result, consequential amendments are proposed to Section PS 2130 to be consistent with the proposed Conceptual Framework. The proposed amendments include replacing “measurement uncertainty” with “estimation uncertainty” throughout Section PS 2130, including the title of the Section. Due to the repetitive nature of the proposed amendments, they are not detailed in this Exposure Draft. For a detailed copy of these proposed amendments, please refer to the document [“Detailed Amendments Proposed in the Exposure Draft, “Consequential Amendments Arising from the Proposed Conceptual Framework.”](#)”

Other proposed amendments to Section PS 2130 include the following that would make the Section consistent with the wording in the proposed Conceptual Framework:

Add a footnote to paragraph PS 2130.02(b) to indicate that the proposed Conceptual Framework has additional guidance on estimation uncertainty.

### DISCLOSURE

...

.10 There is a degree of uncertainty associated with the ~~estimation measurement~~ of many amounts recognized or disclosed in the financial statements. In many cases, however, such uncertainty is not material. A decision about whether ~~estimation measurement~~ uncertainty has a material effect on the financial statements is a matter of professional judgment. Management would consider information such as the range of reasonably possible amounts; whether the amount could change by a material amount; the impact of other reasonably possible amounts on the government’s economic resources, obligations and net assets or net liabilities; and the possible timing of the impact. A judgment about materiality of ~~estimation measurement~~ uncertainty would be made considering the effect that a different reasonably possible amount would have on the financial statements.

...

.12 The estimation of the amount of an item to be accrued or disclosed in financial statements may be based on information that provides a range of amounts. When a particular amount within such a range appears to be a better estimate than any other, that amount would be used. When uncertainty exists, estimates used would attempt to ensure that assets, revenues, liabilities and expenses ~~and gains~~ are not overstated or ~~and that liabilities, expenses and losses are not~~ understated. Estimates of the financial effect are determined using professional judgment, supplemented by experience of similar transactions and, in some cases, reports from independent experts. Estimates include any additional evidence provided by subsequent events occurring after the financial statement date.

Further, the references to MEASUREMENT UNCERTAINTY, Section PS 2130, would be replaced with ESTIMATION UNCERTAINTY, Section PS 2130, in the following Sections:

- LIABILITY FOR CONTAMINATED SITES, paragraphs PS 3260.07(a) and PS 3260.69;
- ASSET RETIREMENT OBLIGATIONS, subheading and paragraph PS 3280.59;
- CONTINGENT LIABILITIES, paragraph PS 3300.06;
- CONTINGENT ASSETS, paragraph PS 3320.07;
- REVENUE, paragraph PS 3400.85;

- TAX REVENUE, paragraph PS 3510.29; and
- INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS, ninth row in chart.

Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. Only the affected Sections are listed here. For a detailed copy of these proposed amendments, please refer to the document [“Detailed Amendments Proposed in the Exposure Draft, “Consequential Amendments Arising from the Proposed Conceptual Framework.”](#)”

## Amending references to “service capacity”

Chapter 3 of the proposed Conceptual Framework defines “service capacity” as the capacity or ability to serve the public. The PSA Handbook uses the term “service capacity” more narrowly, referring to the capacity of individual tangible capital assets. As a result, consequential amendments are being proposed to amend references to service capacity where applicable.

### TANGIBLE CAPITAL ASSETS, Section PS 3150

#### DEFINITIONS

- .05(f) **Service potential** is the output or ~~service~~ capacity of a tangible capital asset, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life.

...

#### Cost

...

- .19 Costs of betterments are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. In general, for tangible capital assets other than complex network systems, service potential may be enhanced when there is an increase in the previously assessed physical output or ~~service its~~ capacity to provide services, where associated operating costs are lowered, the useful life of the property is extended or the quality of the output is improved.

### ASSETS, Section PS 3210

#### Future economic benefits

...

- .15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service potential ~~capacity~~ of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

### CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4230

#### DEFINITIONS

- .05 The definitions that follow have been adopted for purposes of this Section.

...

- (h) **Service potential** is used to describe the ~~service~~ capacity or output of a capital asset and is normally determined by reference to attributes such as useful life, associated operating costs, physical output capacity and quality of output.

...

**Betterment**

- .15 The cost incurred to enhance the service potential of a capital asset is a betterment. Service potential may be enhanced when there is an increase in the previously assessed service physical output or its capacity to provide services, associated operating costs are lowered, the useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of a capital asset is a repair, not a betterment. If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment is included in the cost of the capital asset.

**Amending references to “reliability”**

The existing Conceptual Framework lists reliability as a qualitative characteristic. In the proposed Conceptual Framework, PSAB replaced “reliability” with “faithful representation”. As a result, “reliable” would be replaced with “faithfully represented” in paragraph PS 3450.18.

More detailed amendments are being proposed for the following Sections.

**INTRODUCTION TO PUBLIC SECTOR ACCOUNTING STANDARDS****NEUTRALITY IN STANDARD SETTING**

- .30 Neutrality in accounting has a greater significance for those who set accounting standards than for those who have to apply those standards in preparing financial reports, but the concept has substantially the same meaning for the two groups, and both will maintain neutrality in the same way. ~~Neutrality means that either in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest.~~ As a matter of policy, PSAB assesses the merits of proposed standards from a position of neutrality. That is, the soundness of standards is not evaluated on the grounds of their possible impact on behaviour. PSAB does not choose standards according to the kinds of behaviour it wishes to promote and the kinds it wishes to discourage. At the same time, it is admitted that some standards will often have the effect of influencing behaviour, and PSAB is alert to the economic impact of the standards that it promulgates. However, the justification for standards is conceptual and not in terms of their impact.

**RELATED PARTY DISCLOSURES, Section PS 2200****DISCLOSURE**

- .14 Entities prepare financial statements to provide users with ~~relevant and reliable~~ information that meets the qualitative characteristics in Chapter 7 of the Conceptual Framework for demonstrating accountability for the resources entrusted to the entity and for decision-making purposes. Typically, transactions between two willing parties are recognized in financial statements at the amount of cash or cash equivalents paid or received, which is generally the fair value ascribed to them when they took place.

**REVENUE, Section PS 3400****Variable consideration**

...

- .66 When a reasonable estimate can be made of the amount involved, the transaction would be recognized. Professional judgment is needed to determine the most relevant and representationally faithful ~~reliable estimated~~ amount given the circumstances. Some methods used to determine a reasonable estimate include applying either:

## RESTRUCTURING TRANSACTIONS, Section PS 3430

### Non-purchase nature

...

- .12 Fair value of transferred operations or programs is only relevant in determining consideration for acquisitions in the public sector when the transferred program or operation is of a business or revenue-generating nature. The fair value amount can only be evidence of consideration for acquisitions if it meets the qualitative characteristics of ~~reliable information including~~ representational faithfulness and verifiability.

## FINANCIAL INSTRUMENTS, Section PS 3450

### Fair value measurement considerations

...

- .028 The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, a government establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide representationally faithful ~~reliable~~ estimates of prices obtained in actual market transactions, a government uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on inputs specific to that government. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a government calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data.

...

### No active market – valuation technique

- A33 If the market for a financial instrument is not active, a government establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide representationally faithful ~~reliable~~ estimates of prices obtained in actual market transactions, a government uses that technique.

...

### Quantitative disclosures

- A55 Paragraph PS 3450.088(a) requires disclosures of summary quantitative data about a government's exposure to risks based on the information provided internally to a government's key management personnel. When a government uses several methods to manage a risk exposure, it would disclose information using the method or methods that provide the most relevant and representationally faithful ~~reliable~~ information. Chapter 7 of the Conceptual Framework FINANCIAL STATEMENT CONCEPTS, Section PS 1000, addresses relevance and faithful representation ~~reliability~~.

## Revising the definition of “materiality” consistent with the Conceptual Framework

Chapter 7 of the proposed Conceptual Framework defines “materiality”. Consequential amendments are being proposed to amend the definition of “materiality” in Section PS 2130.

### DISCLOSURE

...

- .09 The materiality of the effect of the estimation measurement uncertainty on the financial statements is the sole criterion for determining whether disclosure of estimation measurement uncertainty in accordance with paragraphs PS 2130.06-.07 would be made. Materiality is the term used to describe significance of financial statement information to decision makers. An item of information, or an aggregate of items, is material if omitting, misstating or obscuring it would impair the assessment of accountability by the users or influence the decisions they make ~~it is probable that its omission or misstatement would influence or change a decision~~. Materiality is a matter of professional judgment in the particular circumstances.

## Other amendments

Consequential amendments are proposed to the Glossary of Section PS 3450 to:

- remove the narrow definition of “derecognition” as a more conceptual definition is in Chapter 9 of the proposed Conceptual Framework; and
- remove the definition of “recognition” as it is defined in Chapter 9 of the proposed Conceptual Framework.

The following consequential amendment is proposed to paragraph PS 3410.05(e), note 4, to recognize that:

- through recent narrow-scope amendments and the issuance of PSG-8, the PSA Handbook now allows recognition of purchased intangibles; and
- the remaining exclusions from recognition are proposed to be relocated from the existing conceptual framework to the reporting model standard (proposed Section PS 1202):

Paragraph PS 3410.05(e), note 4: In accordance with FINANCIAL STATEMENT PRESENTATION CONCEPTS, Section PS ~~1202 1000~~, all intangibles that have been developed or inherited in right of the Crown, and items inherited by right of the Crown, such as Crown lands and natural resources that have been inherited in right of the Crown, forests, water and mineral resources, as well as works of art and historical treasures, are not recognized as assets in government financial statements.



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