



Exposure Draft

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

January 2021

COMMENTS DUE TO PSAB MUST BE RECEIVED BY
MAY 12, 2021

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, "[Financial Statement Presentation, Proposed Section PS 1202](#)," published at the same time as this Exposure Draft, the Public Sector Accounting Board (PSAB) sets out the proposals for a revised financial statement presentation standard. 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 financial statement presentation standard.

This Exposure Draft should be read after the Exposure Draft, "[Financial Statement Presentation, Proposed Section PS 1202](#)."

MAIN FEATURES OF THE EXPOSURE DRAFT

The main features of the Exposure Draft are as follows:

- withdrawing the existing reporting model standard, FINANCIAL STATEMENT PRESENTATION, Section PS 1201;
- amending references to FINANCIAL STATEMENT PRESENTATION, Section PS 1201;
- acknowledging multiple components of net assets or net liabilities;
- amending references to "net debt" or "change in net debt";
- amending references to "statement of remeasurement gains and losses";
- introducing "financial instrument assets" and "financial instrument liabilities";
- recognizing financial liabilities and non-financial liabilities;
- making other amendments; and
- introducing new effective dates and transitional provisions relating to proposed changes to existing standards.

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.

IMPLICATIONS OF THE PROPOSALS

Some of the consequential amendments are editorial in nature. They do not:

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

Other consequential amendments will change practice in relation to the presentation of financial statements. These primarily relate to the following:

- withdrawing the existing reporting model standard, FINANCIAL STATEMENT PRESENTATION, Section PS 1201;
- acknowledging multiple components of net assets or net liabilities;
- amending references to “statement of remeasurement gains and losses”; and
- recognizing financial liabilities and non-financial liabilities.

TIMING OF APPLICATION

PSAB expects to issue the final amendments after it finalizes FINANCIAL STATEMENT PRESENTATION, proposed Section PS 1202. The proposed amendments will be effective at the same time: for fiscal years beginning on or after April 1, 2024. Earlier adoption would be permitted. The proposed consequential amendments would be applied retroactively with restatement of prior periods.

COMMENTS REQUESTED

PSAB welcomes comments from individuals, governments and organizations.

PSAB is seeking responses to the following question:

Do you agree with the 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 FINANCIAL STATEMENT PRESENTATION STANDARD, PROPOSED SECTION PS 1202

The CPA Canada Public Sector Accounting (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 Financial Statement Presentation Standard, Proposed Section PS 1202.’”](#)

Withdrawal of the existing financial statement presentation standard

FINANCIAL STATEMENT PRESENTATION, Section PS 1201, would be withdrawn from the PSA Handbook and replaced with FINANCIAL STATEMENT PRESENTATION, proposed Section PS 1202.

Amending references to Section PS 1201

As a result of withdrawing Section PS 1201, the references to “FINANCIAL STATEMENT PRESENTATION, Section PS 1201” will be replaced with “FINANCIAL STATEMENT PRESENTATION, Section PS 1202,” in the following Sections:

- GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(c)(i);
- SUBSEQUENT EVENTS, paragraph PS 2400.09A(a);
- BASIC PRINCIPLES OF CONSOLIDATION, paragraphs PS 2500.11, PS 2500.14 and PS 2500.18;
- INTERESTS IN PARTNERSHIPS, paragraph PS 3060.50;
- LONG-TERM DEBT, paragraph PS 3230.01;
- FINANCIAL INSTRUMENTS, paragraphs PS 3450.003(b) and PS 3450.A57(b);
- INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS, fourth line in chart;
- FUNDS AND RESERVES, paragraph PSG 4.6; and
- SALE-LEASEBACK TRANSACTIONS, paragraphs PSG 5.2 and PSG 5.8.

In some cases, the references would be to specific paragraphs in proposed Section PS 1202.

Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. Only the affected Sections are listed here. 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 Financial Statement Presentation Standard, Proposed Section PS 1202.’”](#)

In LOANS RECEIVABLE, paragraph PS 3050.44, note 4 is proposed to be deleted as it is not needed to understand the paragraph.

In LEASED TANGIBLE CAPITAL ASSETS, paragraph PSG-2.31, FUNDS AND RESERVES, paragraph PSG-4.12, and SALE-LEASEBACK TRANSACTIONS PARAGRAPH, paragraph PSG-5.56, are proposed to be deleted as the paragraphs are out of date. The transitional provisions in these paragraph date from when local governments were first adopting a full accrual reporting model. The provisions originally referenced

FINANCIAL STATEMENT PRESENTATION, former Section PS 1200, which was effective for fiscal years beginning on or after January 1, 2009. When PSAB amended the reporting model to present fair value remeasurements of financial instruments carried at fair value and issued Section PS 1201 to replace Section PS 1200 (2011), these paragraphs should have been deleted, rather than adjusting the reference from Section PS 1200 to Section PS 1201. PSG-2, PSG-4 and PSG-5 apply to local governments as they do to other public sector entities and have done so since local governments adopted Section PS 1200. The changes to the reporting model in Section PS 1201 to present fair value remeasurements of financial instruments carried at fair value are effective for all governments, including local governments, for fiscal years beginning on or after April 1, 2022. This is the effective date for governments adopting the financial instrument suite of standards: Sections PS 3450, PS 2601 and PS 1201.

Acknowledging multiple components of net assets or net liabilities

ACCOUNTING CHANGES, Section PS 2120, provides guidance on how to apply and disclose a change in accounting policy. Retroactive application of a change in accounting policy (with or without restatement of prior periods) requires adjustment to the opening balance of accumulated surplus or deficit. Since proposed Section PS 1202 outlines two further components of net assets or net liabilities (accumulated remeasurement gains and losses and accumulated other), consequential amendments are proposed to Section PS 2120 to include consideration of adjustments to the opening balance of these other components as appropriate.

CHANGE IN AN ACCOUNTING POLICY

...

.06 Various treatments have been advocated to deal with a change in an accounting policy, including the following:

...

- (b) Retroactive application with no restatement of prior periods. The new accounting policy is applied to events and transactions from the date of origin of such items and a cumulative adjustment representing the effect of the change in an accounting policy on prior periods is made in the period in which the change is made. Two different treatments of the cumulative adjustment have been followed: an item reflected in the operating results or an adjustment of the opening balance of the accumulated surplus / deficit or any applicable component of net assets or net liabilities.
- (c) Retroactive application with restatement of prior periods. The new accounting policy is applied to events and transactions from the date of origin of such items. The financial statements for each prior period presented for comparative purposes are restated to reflect the new policy. The balance of the accumulated surplus / deficit or any other applicable component of net assets or net liabilities at the beginning of the earliest period presented is restated to reflect the cumulative effect of the change on periods prior to that date.

...

.15 In some circumstances, while the total cumulative effect of a change in an accounting policy on prior periods can be determined, the effect with respect to specific prior periods may not be reasonably determinable. In such cases, the retroactive effect of the change in the accounting policy is accounted for as a cumulative adjustment of the opening balance of the accumulated surplus / deficit or any other applicable component of net assets or net liabilities of the period in which the change is made.

...

.17 *When a change in an accounting policy is applied retroactively, the financial statements of all prior periods presented for comparative purposes should be restated to give effect to the new accounting policy, except in those circumstances when the effect of the new accounting*

policy is not reasonably determinable for individual prior periods. In such circumstances, an adjustment should be made to the opening balance of the accumulated surplus / deficit or any other applicable component of net assets or net liabilities of the current period, or such earlier period as is appropriate, to reflect the cumulative effect of the change on prior periods. [SEPT-1997/APRIL 2024]

.17A Determining the component(s) of net assets or net liabilities for which the opening balance would be adjusted for a change in accounting policy may be complex. The component(s) of net assets or net liabilities affected would depend on:

- (a) whether the change in the accounting policy affects a revenue or an expense recognized outside of surplus or deficit in the period the revenue or expense arose (i.e., in accumulated remeasurement gains and losses or in accumulated other); and
- (b) whether all or part of the revenue or expense that is affected by the change in accounting policy that was initially recognized in a component of net assets or net liabilities other than accumulated surplus / deficit remains in accumulated remeasurement gains and losses or accumulated other at the beginning of the accounting period.

All or part of a revenue or an expense initially recognized directly in accumulated remeasurement gains and losses or accumulated other may have subsequently been reclassified to the surplus or deficit of subsequent periods. In such cases, if all such amounts have been subsequently reclassified, the change in accounting policy may require adjustment of the opening balance of accumulated surplus / deficit alone. If only part of the revenue or expense initially recognized directly in accumulated remeasurement gains and losses or accumulated other has been reclassified to the surplus or deficit of subsequent periods, then an adjustment would be required of the opening balance of accumulated surplus and deficit and the opening balance of the relevant further component of net assets or net liabilities. If none of the revenue or expense initially recognized directly in accumulated remeasurement gains and losses or accumulated other has been reclassified to surplus or deficit, then an adjustment would be required to the opening balance of the relevant component, accumulated remeasurement gains or losses or accumulated other.

...

.33 The financial statements, including the comparative information for prior periods, are presented as if the error had been corrected in the period in which it was made. Therefore, the amount of the correction that relates to each period presented is included in the restated results for that period. The amount of the correction relating to periods prior to those included in the comparative information in the financial statements is adjusted retroactively. Any other information reported with respect to prior periods, such as historical summaries of financial data, is also restated. Depending on the nature of the error and how it was initially recognized, similar to the guidance in paragraph PS 2120.17A, an adjustment may be required to the opening balance of accumulated surplus or deficit and/or the relevant component, accumulated remeasurement gains or losses or accumulated other.

Similarly, consequential amendments are being proposed to ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, to include consideration of the various components of net assets or net liabilities:

NON-CONTROLLING INTEREST

...

.06 Using the proportionate consolidation method results in the government recognizing the following:

...

- (b) Its proportionate share of the assets, liabilities and accumulated surplus / deficit of the governmental unit or any other applicable component of net assets or net liabilities,

adjusted in accordance with (a). The government's consolidated statement of financial position would include these items on a line-by-line basis, after elimination of the government's proportionate share of inter-governmental unit balances in accordance with BASIC PRINCIPLES OF CONSOLIDATION, paragraphs PS 2500.08-.18.

...

- .07 In this manner, the non-controlling interest in the assets, liabilities, accumulated surplus / deficit or any other applicable component of net assets or net liabilities, revenues and expenses of the governmental unit is excluded from the financial statements.

Amending references to “net debt” and “change in net debt”

Proposed Section PS 1202 introduces the term “net financial liabilities” as a replacement for “net debt”. As a result, consequential amendments are being proposed to paragraph PS 3450.A69 and the illustrative example in Appendix B of PSG-5 to replace “net debt” with “net financial assets or net financial liabilities”.

Other related proposed consequential amendments include the following:

PUBLIC SECTOR GUIDELINE PSG 4, Funds and Reserves

- 9 FINANCIAL STATEMENT PRESENTATION, paragraph PS ~~1202.044~~ 1201.040, establishes that the statement of financial position accounts for net assets or net liabilities as the indicator of net financial position reports net debt and the accumulated surplus / deficit as the two indicators that together explain the financial position at the financial statement date. The accumulated surplus / deficit is the residual amount of the statement of financial position. An entity's net financial position is a residual amount, calculated as the difference between an entity's assets and its liabilities.

Proposed Section PS 1202 has removed the requirement to present the statement of change in net debt. As a result, the following consequential amendment is being proposed to Section PS 2120:

CORRECTION OF AN ERROR IN PRIOR PERIOD FINANCIAL STATEMENTS

...

- .34 *When there has been a correction in the current period of an error in prior period financial statements, the following information should be disclosed:*
- (a) *a description of the error;*
 - (b) *the effect of the correction of the error on the financial statements of the current and prior periods; and*
 - (c) *the fact that the financial statements of prior periods that are presented have been restated.* [SEPT. 1997]

Depending on the nature of the error, it may be appropriate to disclose the effect of its correction on significant items ~~such as the change in net debt.~~ ¹ [APRIL 2024]

Note 1: For example, it may be appropriate to disclose the effect of the correction on net financial assets or net financial liabilities.

Amending references to “statement of remeasurement gains and losses”

Proposed Section PS 1202 introduces the statement of changes in net assets or net liabilities. This statement shows a reconciliation of the accumulated remeasurement gains and losses component of net assets or net liabilities. This reconciliation would present similar information about remeasurement gains and losses required in the existing statement of remeasurement gains and losses. As a result, references to the “statement of remeasurement gains and losses” are proposed to be replaced with “statement of changes in net assets or net liabilities” or “statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component”.

In the following Sections, “statement of remeasurement gains and losses” is proposed to be replaced with “statement of changes in net assets or net liabilities”:

- BASIC PRINCIPLES OF CONSOLIDATION, paragraph PS 2500.07(c);
- ADDITIONAL AREAS OF CONSOLIDATION, paragraphs PS 2510.06(c) and PS 2510.43;
- INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, paragraph PS 3070.69(b); and
- FINANCIAL INSTRUMENTS, the heading “Statement of remeasurement gains and losses” above paragraph PS 3450.076.

In the following Sections, “statement of remeasurement gains and losses” is proposed to be replaced with “statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component”:

- BASIC PRINCIPLES OF CONSOLIDATION, paragraph PS 2500.16A;
- ADDITIONAL AREAS OF CONSOLIDATION, paragraph PS 2510.42(b);
- FOREIGN CURRENCY TRANSLATION, paragraphs PS 2601.08, PS 2601.18 and PS 2601.22;
- PORTFOLIO INVESTMENTS, paragraph PS 3041.07;
- INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, paragraphs PS 3070.08A, PS 3070.58A and PS 3070.59; and
- FINANCIAL INSTRUMENTS, paragraphs PS 3450.052-.053, PS 3450.055, PS 3450.082(c)(i) and PS 3450.A46. Note: the last sentence in paragraph PS 3450.055 has been removed to be consistent with proposed Section PS 1202.

The Exposure Draft “[Financial Instruments: Foreign Exchange Narrow-scope Amendments](#),” proposes changes to the definition of “remeasurement gains and losses” in paragraph PS 2601.03(h) and the glossary of Section PS 3450. If PSAB approves these narrow-scope amendments to Sections PS 3450 and PS 2601, then the reference to “statement of remeasurement gains and losses” in the definition is proposed in these consequential amendments to be replaced with “statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component”.

Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. Only the affected Sections are listed here. 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 Financial Statement Presentation Standard, Proposed Section PS 1202.’](#)”

The following paragraphs are in existing Section PS 1201 (see references in parentheses). Since the paragraphs are specific to presenting remeasurement gains and losses relating to financial instruments, PSAB felt that it was more appropriate to relocate them to Section PS 3450.

- .077A (PS 1201.093) A government ~~discloses~~ presents the amounts of remeasurement gains and losses reported in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component during the period, distinguishing between:
- (a) exchange gains and losses on items in the amortized cost category denominated in a foreign currency; and
 - (b) changes in the fair value of:
 - (i) derivatives;
 - (ii) portfolio investments in equity instruments that are quoted in an active market; and
 - (iii) financial instruments designated to the fair value category.
- .077B (PS1201.094) When an item designated to the fair value category is denominated in a foreign currency, there is no separate disclosure of the exchange gain or loss.

Consequential amendments are proposed to the illustration to paragraph PS 3450.A47 in Appendix A. The proposed amendments would make them consistent with the illustrative financial statements in proposed Section PS 1202 in relation to the statement of changes in net assets or net liabilities and presenting the reconciliation of remeasurement gains and losses.

Presentation of remeasurement gains and losses

...

A47 For example, a government has a fiscal period end of December 31. On April 15, 20X1, it makes a portfolio investment in the stock of a publicly traded company listed on a major stock exchange. The purchase price, excluding the commissions it expensed, is \$100,000. The closing quoted market price for the investment at December 31, 20X1 is \$125,000. On October 31, 20X2 it sells the stock for proceeds of \$115,000. The amounts included in the statement of operations and statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component are set out below.

Statement of Operations			
For the year ended December 31 (\$ thousands)	20X2	20X2	20X1
Revenues	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Gain on portfolio investment	5	15	—
Expenses	=	=	=
Operating Surplus	<u>5</u>	15	—
Accumulated operating surplus, beginning of year	-	=	=
Accumulated operating surplus, end of year	-	15	—
-	-	=	=

Statement of Changes in Net Assets or Net Liabilities Remeasurement Gains and Losses

For the year ended December 31 (\$ thousands)	<u>20X2</u>	<u>20X1</u>
<u>Accumulated surplus</u>		
<u>Accumulated surplus, beginning of year</u>	=	=
<u>Surplus</u>	<u>15</u>	=
<u>Accumulated surplus, end of year</u>	<u>15</u>	=

Accumulated remeasurement gains and losses

Accumulated remeasurement gains and losses, beginning of year	25	—
Unrealized gain / (loss) on portfolio investment	(10)	25
Realized gain on portfolio investment, reclassified to operations	<u>(15)</u>	=
Accumulated remeasurement gains and losses, end of year	—	25
	===	==

The following consequential amendments are proposed to Section PS 2601, in relation to references to the statement of remeasurement gains and losses:

PRESENTATION

...

- .19 *In the period of settlement:*
- (a) *the cumulative amount of remeasurement gains and losses is reversed ~~in~~ from the statement of accumulated remeasurement gains and losses component of net assets or net liabilities on the statement of changes in net assets or net liabilities; and*
 - (b) *an exchange gain or loss measured in relation to the exchange rate at the date of the item's initial recognition is recognized in the statement of operations. [~~APRIL 1, 2019~~ * APRIL 2024]*

Lastly, PSAB concluded that the statement of remeasurement gains and losses would be a required statement for those government not-for-profit organizations (GNFPOs) applying the PS 4200 series of the PSA Handbook. Section PS 4200 requires the statement of change in net assets. However, this statement outlines the presentation of a different breakdown of net assets than that required from the statement of changes in net assets or net liabilities in proposed Section PS 1202. As a result, to present the remeasurement gains and losses in the accumulated remeasurement gains and losses component of net assets, GNFPOs will need to present a statement of remeasurement gains and losses. The following consequential amendments are proposed to the respective Sections to provide guidance in relation to the statement of remeasurement gains and losses:

INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS

- .04 The following table sets out the applicability of CPA Canada PSA Handbook Sections to GNFPOs that elect to follow the standards for not-for-profit organizations in the CPA Canada PSA Handbook. Sections are considered to be of general applicability if they address matters that should be considered by all GNFPOs. Other Sections are applicable to the extent that a particular organization has the transactions or circumstances dealt with in the Section. The remaining Sections are of very limited or no applicability to GNFPOs.

Section	General applicability	Applies to GNFPOs with relevant transactions or circumstances	Limited or no applicability to GNFPOs
...			
<u>PS 1202</u> PS 1204 , FINANCIAL STATEMENT PRESENTATION	X ³		

Note 3: Section PS 1202.4204 applies for preparing the statement of cash flows and statement the reconciliation of the accumulated remeasurement gains and losses in the statement of remeasurement gains and losses. Although the statement of remeasurement gains and losses is not a required statement in Section PS 1202, it would be a required statement for government not-for-profit organizations as the reconciliation of accumulated remeasurement gains and losses cannot be done on the statement of changes in net assets described in Section PS 4200. The statement of remeasurement gains and losses would present the reconciliation of accumulated remeasurement gains and losses as outlined in paragraph PS 1202.140. Section PS 4200 applies for the remaining financial statements.

FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4200

Paragraph PS 4200.05(c), note 1: FOREIGN CURRENCY TRANSLATION, Section PS 2601, and FINANCIAL INSTRUMENTS, Section PS 3450, may require an organization to present a statement of changes in net assets or net liabilities to show the reconciliation of accumulated remeasurement gains and losses or items reflected in this component of net assets or net liabilities. For government not-for-profit organizations applying the PS 4200 series, the requirement is to show the reconciliation on the statement of remeasurement gains and losses. Although the statement of remeasurement gains and losses is not a required statement in Section PS 1202, it would be a required statement for government not-for-profit organizations applying the PS 4200 series. This is because the reconciliation of accumulated remeasurement gains and losses cannot be done on the statement of changes in net assets described in Section PS 4200. The statement of remeasurement gains and losses would present the reconciliation of accumulated remeasurement gains and losses as outlined in paragraph PS 1202.140.

Introducing “financial instrument assets” and “financial instrument liabilities”

The Basis for Conclusions for Exposure Draft, “Financial Statement Presentation, Proposed Section PS 1202,” alludes to the fact that endowments could be classified as non-financial assets. However, endowment contributions are often invested. As a result, one implication of this proposal is that it would make the application of Section PS 3450 difficult for endowment contributions invested, as Section PS 3450 applies to financial assets. To resolve this issue, PSAB is proposing consequential amendments to Section PS 3450 to refer to those assets and liabilities that are financial instruments as “financial instrument assets” and “financial instrument liabilities”. This allows for the possibility that endowment investments restricted in perpetuity could be recognized and measured as financial instrument assets in accordance with Section PS 3450 but presented as non-financial assets in the statement of financial position. The following paragraphs would be amended to replace “financial assets” with “financial instrument assets” and “financial liabilities” with “financial instrument liabilities”:

- paragraphs PS 3450.009-.011;
- paragraphs PS 3450.022-.024;
- paragraphs PS 3450.029-.030;
- paragraphs PS 3450.034-.035;
- paragraph PS 3450.037;
- paragraphs PS 3450.042-.043(a);
- paragraphs PS 3450.048-.051;
- paragraph PS 3450.053A;
- paragraphs PS 3450.059-.061;

- paragraph PS 3450.063;
- paragraphs PS 3450.065-.067A;
- paragraphs PS 3450.070-.071;
- paragraph PS 3450.073;
- paragraph PS 3450.080;
- paragraph PS 3450.084;
- paragraph PS 3450.091;
- paragraph PS 3450.093;
- paragraphs PS 3450.099-.099A;
- Glossary: definitions of “amortized cost”, “effective interest method”, “financial instruments”, “financial liabilities” (renamed “financial instrument liabilities”) and “liquidity risk”;
- paragraphs PS 3450.A4-A5;
- paragraphs PS 3450.A7-A10;
- paragraphs PS 3450.A13-A15;
- paragraph PS 3450.A27;
- paragraph PS 3450.A30;
- paragraphs PS 3450.A36-A37;
- paragraphs PS 3450.A40(g)-(h);
- paragraphs PS 3450.A43-A45A;
- paragraphs PS 3450.A52-A54;
- paragraphs PS 3450.A58-A59; and
- paragraphs PS 3450.A62-A65.

Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. Only the affected paragraphs are listed. 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 Financial Statement Presentation Standard, Proposed Section PS 1202.’”](#)

Further, references to “financial assets” and “financial liabilities” that relate to financial instruments, are proposed to be replaced with “financial instrument assets” and “financial instrument liabilities” in the following Sections:

- BASIC PRINCIPLES OF CONSOLIDATION, paragraph PS 2500.16A;
- PORTFOLIO INVESTMENTS, paragraphs PS 3041.02(b)-(c); and
- RESTRUCTURING TRANSACTIONS, paragraph PS 3430.47.

The Exposure Draft [“Financial Instruments: Foreign Exchange Narrow-scope Amendments,”](#) proposes new paragraph PS 2601.19A, amendments to paragraph PS 2601.25, new paragraph PS 3450.071A and

amendments to paragraph PS 3450.099(b)(i). If PSAB approves these narrow-scope amendments for Sections PS 2601 and PS 3450, references to “financial assets” and “financial liabilities” that relate to financial instruments in those paragraphs are proposed to be replaced with “financial instrument assets” and “financial instrument liabilities.”

Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. Only the affected paragraphs are listed here. 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 Financial Statement Presentation Standard, Proposed Section PS 1202.’”](#)

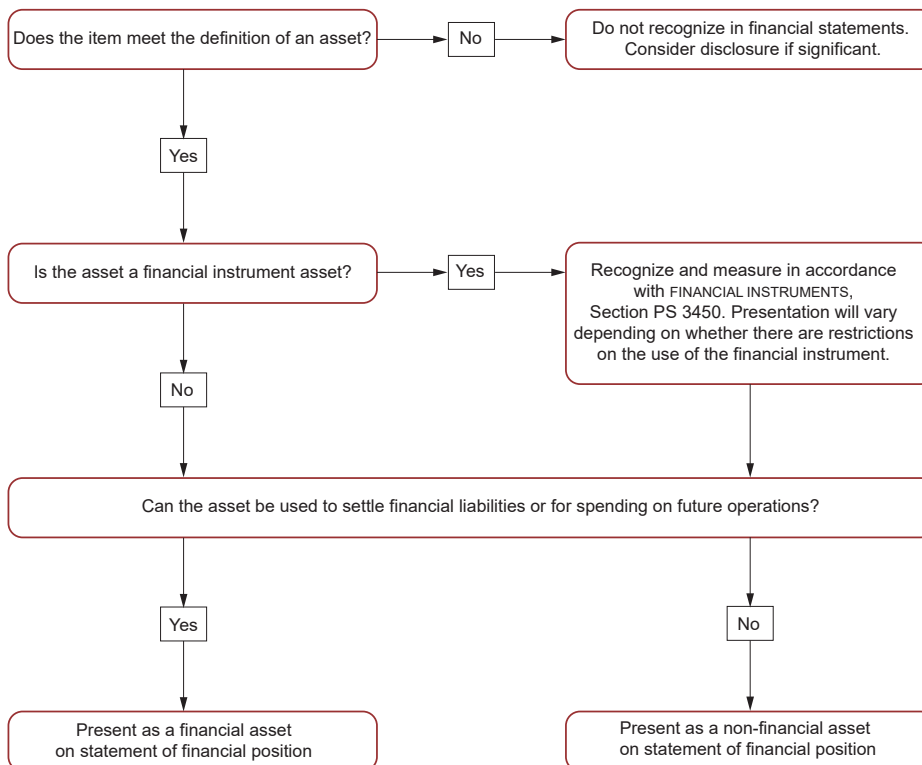
Lastly, as a result of introducing “financial instrument assets” and “financial instrument liabilities” in Section PS 3450, the following consequential amendments are also proposed to Section PS 3450:

- Removing paragraph .004 as the standard has been narrowed to consider financial instruments as a result, reference to financial assets is not required:
~~.004 The definition for financial assets given in FINANCIAL STATEMENT PRESENTATION, Section PS 1201, applies. However, as paragraph PS 3450.003 establishes, the requirements of this Section do not apply to all financial assets. Certain items, such as inventories for resale and an asset held for sale according to the criteria set out in paragraph PS 1201.055, are physical assets and are excluded from the scope of this Section.~~
- Introducing the definition of “financial instrument assets” in the Glossary. This definition is consistent with how international standard setters define “financial assets” in their financial instrument standards. The broader definition of “financial assets” is only used in Canada, primarily for calculating the net financial liabilities (currently known as net debt) or net financial assets indicator.

Financial instrument assets are any assets that are:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
 - (i) to receive cash or another financial instrument asset from another entity; or
 - (ii) to exchange financial instruments with another entity under conditions that are potentially favourable to the entity.

Adding Appendix B, which would include the following decision tree. The purpose of the decision tree is to help preparers determine how to present and recognize financial instrument assets.



Recognizing “financial liabilities” and “non-financial liabilities”

Proposed Section PS 1202 introduces categories of liabilities: financial and non-financial. The following consequential amendments are proposed to recognize the different categories of liabilities:

INTERESTS IN PARTNERSHIPS, Section PS 3060

PRESENTATION AND DISCLOSURE

...

- .57 *Deferred gains arising from the public sector entity’s investment of assets in the partnership should be reported with financial liabilities in the public sector entity’s statement of financial position. [OCT. 1999 APRIL 2024]*

RESTRICTED ASSETS AND REVENUES, Section PS 3100

Revenue recognition

...

- .10 Other restricted inflows may be received before the period in which the related expenditures will be incurred and, therefore, should not be recognized as revenues in the current period. In such cases, the government has an obligation to use the resources as stipulated in a future period and that obligation is best reflected by recording the unspent portion as a financial liability (deferred revenue).
- .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 financial liability until the resources are used for the purpose or purposes specified. [JUNE 1997 APRIL 2024]*

LONG-TERM DEBT, Section PS 3230

PURPOSE AND SCOPE

- .01 This Section establishes standards on how to account for and report long-term debt in government financial statements, ¹ including debt issued on behalf of a government business enterprise. It does not address the presentation and disclosure of other long-term obligations of a government. General guidance regarding the presentation and disclosure of a government's financial liabilities is provided in FINANCIAL STATEMENT PRESENTATION, paragraphs PS ~~1201.044-.048~~ 1202.073-.083. Retirement benefits are specifically dealt with in RETIREMENT BENEFITS, Section PS 3250. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.

...

Debt issued on behalf of government business enterprises

...

- .07 When a government undertakes general borrowing and then subsequently loans some or all of the debt proceeds to a government business enterprise, the government would include the entire amount that it has borrowed from sources external to the reporting entity as a financial liability on its consolidated statement of financial position. Any amount subsequently loaned to a government business enterprise would be included on the consolidated statement of financial position as a receivable from a government business enterprise. The government business enterprise would record the amount loaned as a liability owed to the government.

RETIREMENT BENEFITS, Section PS 3250

DEFINED BENEFIT PENSION PLANS

- .015 Obligations for retirement benefits result from a promise by a government to provide retirement benefits to employees because of retirement in return for their services. The obligations arise as employees render services. Therefore, as employees render services, the value of the retirement benefits attributed to those services would be recorded as a financial liability and expense as are other forms of current compensation.
- .016 *The statement of financial position should report the retirement benefit liability as a financial liability and the statement of operations should report the expenses for retirement benefits on the basis of the value of the benefits attributed to employee service to the financial statement date.*
[SEPT. 2004 APRIL 2024]

...

DEFINED CONTRIBUTION PLANS

- .097 *For defined contribution plans:*
- (a) *the liability for retirement benefits should be the difference between the amount a government was required to contribute and the amount that was contributed by the financial statement date including accumulated interest on any outstanding amounts payable to the fund at the financial statement date;*
 - (b) *the retirement benefit liability should be accounted for in the statement of financial position and presented as a financial liability;*
 - (c) *the expense for retirement benefits should be the amount of required contributions provided for employees' services rendered in the period. Interest accrued during the period on any outstanding amounts payable to the fund should be accounted for as a retirement benefit interest expense; and*

- (d) *the retirement benefit expense and the retirement benefit interest expense should be accounted for in the statement of operations. [~~SEPT. 2004~~ APRIL 2024]*

...

APPENDIX B – ILLUSTRATIVE EXAMPLES

Statement of Financial Position (excerpts)		
As at March 31 (\$ thousands)	<u>20X4</u>	<u>20X3</u>
<u>Financial liabilities</u>		
Accounts payable	x	x
Accrued liabilities	x	x
Borrowings		
Treasury bills	x	x
From other governments	x	x
Bonds payable to pension fund (note)	200,000	190,000
Other	x	x
Pension liability (note)	<u>456,312</u>	<u>441,358</u>
Total <u>financial liabilities</u>	<u>x</u>	<u>x</u>
Excess of liabilities over financial assets	x	x
-	<u>=====</u>	<u>=====</u>

POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255

Benefits that vest or accumulate

- .15 For post-employment benefits and compensated absences that vest or accumulate, obligations result from a government promise to provide benefits to employees in return for their services. As employees render services, the value of the post-employment benefits and compensated absences attributed to those services would be recorded as a financial liability and expense. RETIREMENT BENEFITS, Section PS 3250, provides general principles that are appropriate to govern the accounting for and disclosure of post-employment benefits and compensated absences that vest or accumulate.
- .16 *A government should recognize a financial liability and an expense for post-employment benefits and compensated absences that vest or accumulate in the period in which employees render services to the government in return for the benefits. RETIREMENT BENEFITS, Section PS 3250, should be followed in accounting for such benefits. [~~JAN. 2004~~ APRIL 2024]*

...

Event-driven benefits

...

- .22 *A government should recognize a financial liability and an expense for post-employment benefits and compensated absences that do not vest or accumulate when the event that obligates the government occurs. [~~JAN. 2004~~ APRIL 2024]*

TERMINATION BENEFITS

...

.28 *A government should recognize termination benefits as a financial liability and expense when it is demonstrably committed to either:*

- (a) *terminate the employment of an employee or group of employees; or*
 - (b) *provide termination benefits as a result of an offer to encourage voluntary termination.*
- [JAN. 2004 APRIL 2024]

...

.32 *If the time frame for implementing a plan relates to several accounting periods, the estimated cost of the involuntary termination benefits would be determined on a present value basis in the current period and recognized as a financial liability and expense in that period. Estimates may need to be re-evaluated as new events occur, as more experience is acquired, or as additional information is obtained.*

LIABILITY FOR CONTAMINATED SITES, Section PS 3260

RECOGNITION

.08 *A liability for remediation of contaminated sites should be recognized when, as at the financial reporting date:*

- (a) *an environmental standard exists;*
- (b) *contamination exceeds the environmental standard;*
- (c) *the government:*
 - (i) *is directly responsible; or*
 - (ii) *accepts responsibility;*
- (d) *it is expected that future economic benefits will be given up; and*
- (e) *a reasonable estimate of the amount can be made.*

An obligation for remediation of contaminated sites cannot be recognized as a liability unless all criteria above are satisfied. When an obligation for remediation of contaminated sites is recognized as a liability it would be presented as a financial liability in the statement of financial position.¹ [APRIL 2024~~2014~~]

NEW NOTE 1: FINANCIAL STATEMENT PRESENTATION, Section PS 1202, provides guidance on financial liabilities.

ASSET RETIREMENT OBLIGATIONS, Section PS 3280

RECOGNITION OF ASSET RETIREMENT OBLIGATIONS

.09 *A liability should be recognized when, as at the financial reporting date:*

- (a) *there is a legal obligation to incur retirement costs in relation to a tangible capital asset;*
- (b) *the past transaction or event giving rise to the liability has occurred;*
- (c) *it is expected that future economic benefits will be given up; and*
- (d) *a reasonable estimate of the amount can be made.*

A liability for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied. When an asset retirement obligation is recognized as a liability it would be presented as a financial liability in the statement of financial position.¹ [APRIL 2024~~2021~~]

NEW NOTE 1: FINANCIAL STATEMENT PRESENTATION, Section PS 1202, provides guidance on financial liabilities.

LOAN GUARANTEES, Section PS 3310

PROVIDING FOR LOSSES

...

.08 *A provision for losses on loan guarantees should be established when it is determined that a loss is likely, and should be accounted for as a financial liability and in the statement of operations as an expense. [~~JUNE 1995~~ * APRIL 2024]*

...

GUARANTEED LOANS TO BE REPAYED FROM FUTURE GOVERNMENT ASSISTANCE

...

.24 *The amount of a guaranteed loan that is expected to be repaid from future government assistance should be accounted for as a financial liability and an expense in the statement of operations in the period when a direct relationship can be established between the repayment of the loan and the government's funding to the borrower. [~~JUNE 1995~~ * APRIL 2024]*

GOVERNMENT TRANSFERS, Section PS 3410

Recipient government

...

.23A A liability arising from:

- (a) an operating transfer would be presented as a financial liability;
- (b) a capital transfer for the purpose of acquiring or developing a tangible capital asset would be presented as a financial liability;
- (c) a capital transfer for the purpose of acquiring or developing a tangible capital asset for use in providing services for a defined number of years would:
 - (i) initially be presented as a financial liability, as the capital transfer is received; and
 - (ii) then reclassified to a non-financial liability as the tangible capital asset is acquired or developed;
- (d) a transfer of a tangible capital asset that is to be used to provide services for a defined number of years would be presented as a non-financial liability.

FINANCIAL INSTRUMENTS, Section PS 3450

FINANCIAL STATEMENT DISCLOSURES

...

.082 For fair value measurements recognized in the statement of financial position, a government discloses the following for each class of financial instruments.

...

- (b) Any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level are disclosed and discussed separately from transfers out of each level. For this purpose, significance is judged with respect to remeasurement gains and losses and total financial assets or total financial liabilities.

In the case of significant transfers in or out of Level 3, transfers into Level 3 are disclosed and discussed separately from transfers out of Level 3. A government discloses how the effect of a change to a reasonably possible alternative assumption was calculated. In these cases, significance is judged with respect to remeasurement gains and losses and total financial assets or total financial liabilities.

LEASED TANGIBLE CAPITAL ASSETS, PSG-2

ACCOUNTING

- 11 A government should account for leased property that meets the definition of a leased tangible capital asset as a tangible capital asset and a financial liability.

Also, consequential amendments will be made to PUBLIC PRIVATE PARTNERSHIPS, new Section PS 3160, to note the following:

- liabilities identified under the financial liability model would be classified and presented as financial liabilities; and
- liabilities identified under the user pay model would be classified and presented as non-financial liabilities.¹

Other amendments

The following consequential amendments are proposed to Section PS 3050 to be consistent with the definition of a “financial asset” in proposed paragraph PS 1202.005(a):

- .12 If a direct relationship can be established between the government assistance given to a borrower and repayment of the loan, the loan does not meet the definition of a financial asset. The government would not receive any resources from the loan transaction that could be used to discharge existing financial liabilities or spend on finance future operations. Such transactions are in the nature of grants, and should be accounted for as expenses in accordance with GOVERNMENT TRANSFERS, Section PS 3410.

The definition of “financial assets” is proposed to be removed from Section PS 3450 as it resides in proposed Section PS 1202:

~~**GLOSSARY: Financial assets** are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.~~

The following consequential amendments are proposed to FUNDS AND RESERVES, PSG-4, to update the language to be consistent with that in proposed Section PS 1202:

- 7 Therefore, when a government chooses to provide information about any funds or reserves, it does so only in the notes and schedules and not on the statement of financial position. The creation of, addition to or deduction from funds and reserves does not create a revenue or expense, and would therefore not be reported on the statement of operations or the statement of changes in net assets or net liabilities.

...

- 8 These principles are consistent with those established in FINANCIAL STATEMENT PRESENTATION, Section PS 1202.1201, which sets out the indicators for consolidated financial statements ~~and specifies the residual amounts of the financial statements.~~⁴

¹ Section 3160 is expected to be included in the PSA Handbook in the first half of 2021, at the same time that this Exposure Draft is out for public comment. As a result, the exact consequential amendments cannot be reflected at this time.

Paragraph 8, note 1: ~~The residual balance on a financial statement refers to the final number or “bottom-line” of the financial statement.~~

...

~~10 Likewise, consistent with FINANCIAL STATEMENT PRESENTATION, paragraph PS 1201.078, the residual amount of the statement of operations is the ending accumulated surplus / deficit unless a separate statement reconciling the beginning and ending accumulated surplus / deficit with surplus / deficit for the period is provided. In this case, the residual amount for the statement of operations is the surplus / deficit for the period.~~

Amendments to effective dates and transitional provisions

The consequential amendments proposed in this Exposure Draft will be effective at the same time as the revised financial statement presentation standard, proposed Section PS 1202: for fiscal years beginning on or after April 1, 2024. As a result, in every standard affected by the consequential amendments (i.e., those Sections noted in this Exposure Draft), a paragraph is being added to transparently indicate what has been changed, the effective date of the amendments and the transitional provisions of those amendments.

The following is an example of such a paragraph, which is proposed to be added to Section PS 2120:

.36 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs PS 2120.06(b)-(c), PS 2120.15, PS 2120.17 and PS 2120.34 and added paragraph PS 2120.17A. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

Due to their repetitive nature, the proposed amendments are not shown in this Exposure Draft. 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 Financial Statement Presentation Standard, Proposed Section PS 1202.’](#)”

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