

# **The Conceptual Framework for Financial Reporting in the Public Sector**

**Responses to Exposure Draft**

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**August 2021**

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## Table of Contents

<b>Response Number</b>	<b>Organization</b>	<b>Page Number</b>
CF ED 001	Municipal Finance Officers' Association of Ontario	5 - 12
CF ED 002	Town of Aurora	13 -14
CF ED 003	Municipality of Clarington	15 -17
CF ED 004	MNP LLP	18 - 19
CF ED 005	CONFIDENTIAL	
CF ED 006	Township of Central Frontenac	20 -21
CF ED 007	County of Essex	22 - 23
CF ED 008	City of Winnipeg	24 - 32
CF ED 009	Office of the Comptroller General of British Columbia	33 - 37
CF ED 010	CONFIDENTIAL	
CF ED 011	Town of Petrolia	38 - 39
CF ED 012	Colleges of Ontario Finance Officers	40 - 43
CF ED 013	Township of Bonnechere Valley	44 - 45
CF ED 014	Municipality of Strathroy	46 - 47
CF ED 015	Middlesex Centre	48 - 49
CF ED 016	Vérificateur Général du Québec	50 - 55
CF ED 017	Treasury Board of Canada Secretariat	56 - 60
CF ED 018	CAGFO Committee	61 - 69

CF ED 019	Office of the Auditor General of Canada	70 - 73
CF ED 020	City of Brantford	74 - 75
CF ED 021	Village of WestPort	76 - 77
CF ED 022	Welch LLP	78 – 82
CF ED 023	City of Surrey	83
CF ED 024	Office of the Auditor General of Saskatchewan	84 - 86
CF ED 025	CONFIDENTIAL	
CF ED 026	City of Vaughan - Support for MFOA	87 - 88
CF ED 027	City of Thunder Bay	89 – 90
CF ED 028	Contrôleur des Finance du Québec	91 – 92
CF ED 029	Provincial Comptroller's Office Saskatchewan	93 - 123
CF ED 030	BDO Canada LLP	124 - 126
CF ED 031	Auditor General of Manitoba	127 - 128
CF ED 032	Office of Auditor General Alberta	129 - 148
CF ED 033	Office of the Provincial Controller General Ontario	149 - 154
CF ED 034	First Nations Market Housing Fund	155 - 158
CF ED 035	University of Alberta	159
CF ED 036	Auditor General of New Brunswick	160 - 163
CF ED 037	City of Edmonton	164 - 168
CF ED 038	Grant Thornton LLP	169 - 171
CF ED 039	Finance and Treasury Board of Nova Scotia	172 - 175

CF ED 040	Canadian Association of University Business Officers	176 - 179
CF ED 041	Office of the Auditor General of Ontario	180 - 182
CF ED 042	Government of the Northwest Territories	183 - 186
CF ED 043	Alberta Treasury Board and Finance	187 - 189
CF ED 044	Mount Alison University	190 - 192
CF ED 045	CONFIDENTIAL	
CF ED 046	Treasury Board Secretariat Manitoba	192 - 195
CF ED 047	CONFIDENTIAL	
CF ED 048	Office of the Comptroller of New Brunswick	196
CF ED 049	Region of Peel	197 - 198
CF ED 050	Office of the Auditor General of British Columbia	199 - 200
CF ED 051	City of Vancouver	201 - 205
CF ED 052	City of Toronto	206 - 211
CF ED 053	Ordre des Comptables Professionnels Agréés du Québec	212 - 220
CF ED 054	First Nations Financial Management Board	221 - 231
CF ED 055	City of Windsor (Support for MFOA)	232 - 233

## 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](mailto: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](mailto:rvankessel@aurora.ca).

Sincerely,



cc. Donna Herridge, Municipal Finance Officers' Association of Ontario  
[donna@mfoa.on.ca](mailto: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
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
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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 how municipal budgets are currently prepared. Instead, 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 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](mailto: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: The Conceptual Framework for Financial Reporting in the Public Sector & Consequential Amendments Arising from the Proposed Conceptual Framework**

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 concepts in the proposed Conceptual Framework?**

We agree with the concepts in the proposed conceptual framework. The framework is comprehensive and provides a strong foundation for creating future standards. As well, it serves as a foundation of basic concepts to be relied upon for accounting policy decision-making when an issue is not specifically addressed at the standards level.

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

We agree with the consequential amendments arising from the proposed conceptual framework.

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, looped initial "J".

Jody MacKenzie, CPA, CA  
Director, Assurance Professional Standards

Michael Puskaric, MBA, CPA, CMA  
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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](mailto:treasury@centralfrontenac.com).

Sincerely,



cc. Donna Herridge, Municipal Finance Officers' Association of Ontario ([donna@mfoa.on.ca](mailto: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**

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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:

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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

May 5, 2021

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

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Should you require further information, please contact me by email at [szwiers@countyofessex.ca](mailto: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

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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**

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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**

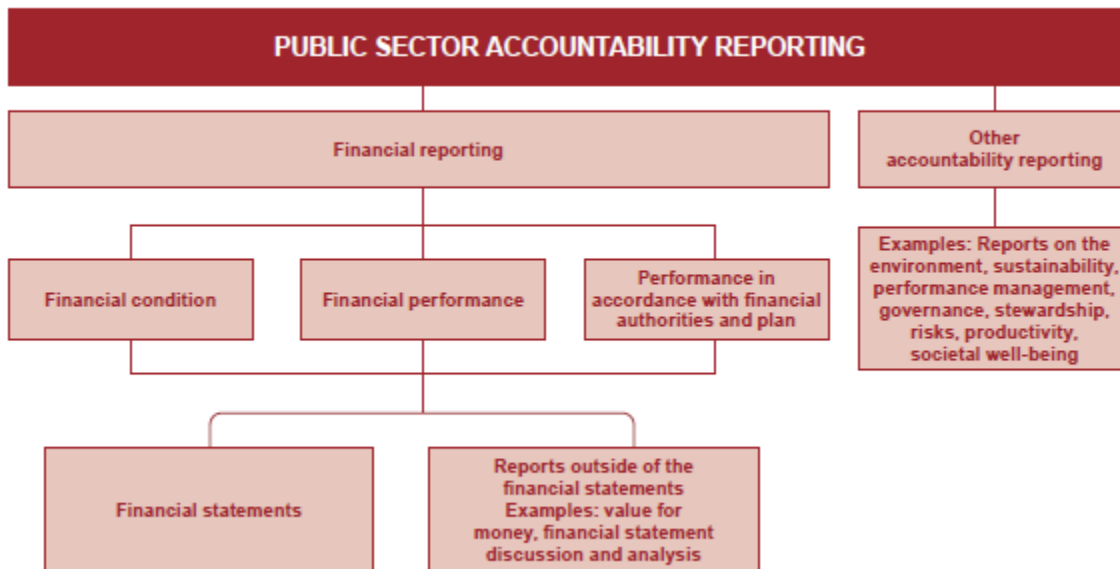
*Identifying the characteristics of public sector entities, which include governments, government components and government organizations, will result in concepts and standards that are appropriate to the public sector.*

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**

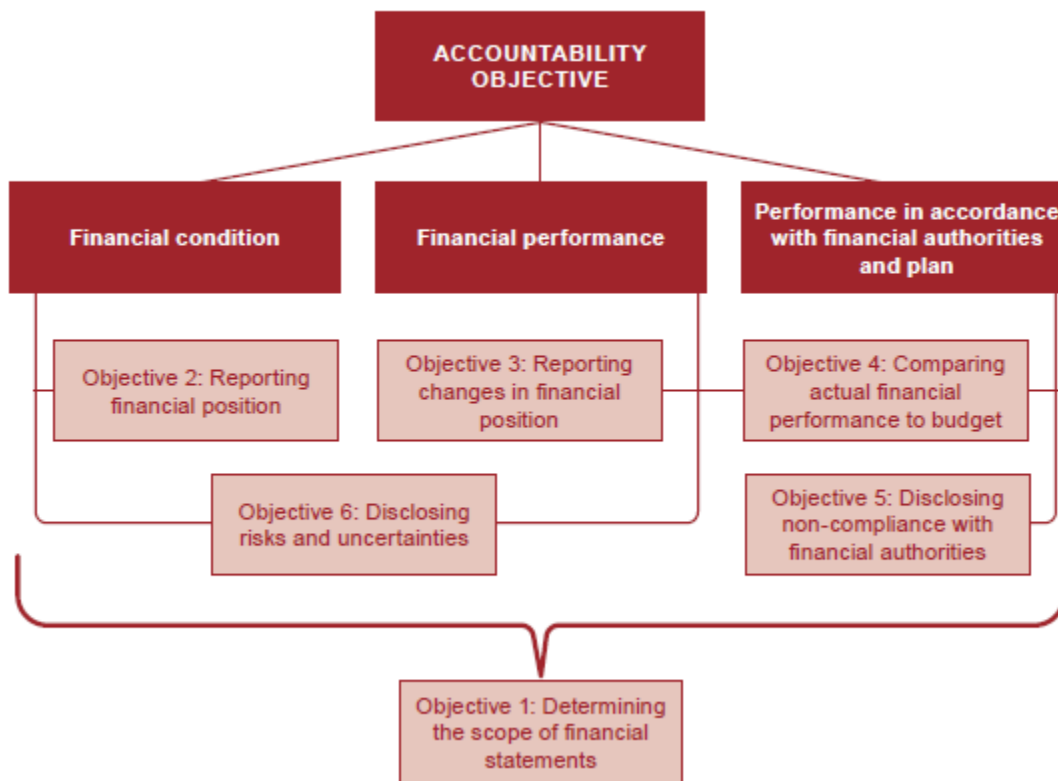
*Governments carry out their policies and serve the public through a variety of public sector entities and through funding of other entities. Some public sector entities are components of government, such as departments and ministries, and are integral to the operations of government. Other public sector 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

481342

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

Dear Michael:

**RE: PSAB Exposure Draft: The Conceptual Framework for Financial Reporting in the Public Sector**

Thank you for the opportunity to provide comments on the exposure draft titled, “The Conceptual Framework for Financial Reporting in the Public Sector”. The views expressed in this letter reflect the views of the Government of the Province of British Columbia, 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.

Principle based accounting works as a reliable system because of the conceptual balance on both sides of the ledger as it relates to recording of assets, liabilities, revenues and expenses. Any new or established conceptual framework must adhere to that system.

PSAB has made improvements agreed with or requested by stakeholders during this project. These improvements include: recognition that accounting standards must respond to the needs of primary users; an acknowledgement of the unique features of Canadian governments and government organizations; a clear definition of government; acknowledgement that governments work within legislated accountability frameworks; recognition that government is primarily accountable for implementing programs within legislated budgets; and limiting the reference to private sector concepts.

Thank you for the additional changes that were made in response to comments on the Statement of Concepts: broadening the focus on service capacity, including rating agencies in the list of users, clarifying the meaning of sustainability, clarifying the role of individual

.../2

standards in disclosing risks and uncertainties, explaining the capital maintenance concept, and improving the definition of financial condition in the glossary.

The conceptual framework project was intended to address issues raised by the preparers and users of the general-purpose financial statements. Outcomes of the project are expected to include support for non-financial liabilities arising from non-exchange transactions, reporting actual results to legislated budgets, and reporting the substance of hedging transactions, as this is a key objective of financial statements.

*Non-financial liabilities relating to non-exchange transactions*

We are encouraged that PSAB has now included non-financial liabilities in the reporting model and appreciate that PSAB has broadened the service capacity concept. The conceptual framework should also include the recognition of non-financial liabilities for non-exchange transactions, as this service capacity is embodied in government's ability to deliver services (assets and programs) over subsequent fiscal years. A government's nature of business will always include these obligations, which should be reported in a manner that is representationally faithful and meets the needs of the primary statement users. Lack of a clear definition of these obligations in the conceptual framework may lead to ambiguity in interpretation of the standards.

*Actual results to Budget*

The exposure draft appropriately highlights the comparison of actual results to budget as an important accountability of public sector entities. We note that in the case of an amended budget of a senior government, the new budget would need to proceed through the legislative process to come into effect, rendering the original budget void. There is no scenario where an adjusted budget aside from the legislated budget should be included.

*Supporting the substance of hedging transactions*

PS 3450 requires reporting of financial instruments at fair value. The use of fair value for financial instruments in a hedging transaction does not align with the revised conceptual framework because it does not reflect the underlying substance of the hedge relationship and prevents financial statements from reflecting accurate information for accountability purposes. In public sector entities, hedging is used to offset gains and losses arising from holding financial instruments to maturity and to safeguard against market risk. Reporting financial instruments at fair value will not reflect the ultimate settlement value of the financial assets and liabilities and will introduce artificial volatility into the financial statements. PSAB should provide a basis for conclusions that describes how fair value measurement for financial instruments in a hedging relationship meets the accountability objective.

*Not all financial statements, schedules and notes are equal*

While we agree that the financial statements alone do not provide detailed accounting, they are integral to providing information for accountability purposes and carry more significance than the accompanying notes and schedules. While notes and schedules provide more detail, they cannot stand alone without the financial statements.

*Accumulated other*

The creation of an "other components" of surplus or deficit, without establishing principles for use, makes it difficult for stakeholders to provide meaningful feedback. Without a clear definition, preparers may be expecting resolution to longstanding issues without understanding the full impacts.

*Financial statement objectives*

We agree that determining scope, reporting financial position and changes in financial position, disclosing non-compliance, and comparing actual to budget are primary objectives of financial statements. We also agree that individual standards should provide requirements for specific risks and uncertainties to be disclosed. We however, do not agree that disclosing risks and uncertainties is a primary objective of financial statements. Governments face a wide variety of risks, which change constantly and do not have the same factual basis as financial statement elements: an over-emphasis on these risks in financial reporting could skew the reporting and may even lead to the undesirable effect of looking for and reporting risks and uncertainties just for appearances rather than to meet the accountability objective.

*Stakeholder engagement and understanding*

Users' understanding of government financial statements is not as sophisticated as PSAB believes it to be. The assumption that this revised conceptual framework will be more understandable to users may be ambitious without first engaging and educating users on existing and potential knowledge gaps.

Please consider this letter to be the response to the specific question posed in the Exposure Draft.

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

**Comments requested:**

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

Please consider this letter to be the response to the specific question posed in the Exposure Draft.

**Additional comments:**

- We agree that benefit versus cost and materiality are considerations, but "prudence" is too subjective and could introduce bias. In addition, PSAB should retain the concept of trade-off between qualitative characteristics.
- PSAB should ensure appropriate due process is followed when determining when different measurement attributes should be used. There should be opportunities for users and preparers to provide input based on their needs and circumstances. Options for other measurement bases should be open and based on professional judgement.
- Section 1.12 (d), "excluding from consideration potential solutions that conflict with it," contradicts 1.09, "PSAB may...specify requirements that depart from aspects of the conceptual framework."
- Section 3.06 lists four aspects of public accountability. Two of these, stewardship and sustainability, are referenced in 3.22; stewardship only in 4.14; and all four in 7.04, 7.05, 7.28, and 7.32. If all four are relevant to the qualitative characteristics, they are also relevant with respect to the role of the financial statements.
- The definition of "financial condition" could be improved further by removing the self-evident word "complex" from the first sentence.

Michael Puskaric, MBA, CPA, CMA  
[mpuskaric@psabcanada.ca](mailto: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:

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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](http://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
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9. Amend paragraph 3.20(A) to explicitly state user fees as a way to raise public resources
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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 me at [rcharlebois@petrolia.ca](mailto: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](mailto:donna@mfoa.on.ca))

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**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](mailto: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](mailto: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](mailto: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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Sincerely,



cc. Donna Herridge, Municipal Finance Officers' Association of Ontario ([donna@mfoa.on.ca](mailto: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.

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Sincerely,

*Tiffany Farrell*

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

Québec, le 14 juin 2021

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

**Objet : Exposé-sondage – Le cadre conceptuel de l’information financière dans le secteur public**

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,

Guylaine Leclerc, FCPA auditrice, FCA

p. j. Réponse

- Appuyez-vous les concepts énoncés dans le cadre conceptuel proposé?

## Réponse

Nous sommes en accord avec les concepts énoncés dans le cadre conceptuel proposé à l'exception des éléments mentionnés ci-après.

De façon générale, les chapitres 1 à 3 comprennent certains concepts très généraux qui ne semblent pas toujours utiles à la compréhension du cadre conceptuel (voir commentaire sur le chapitre 2 par exemple). De plus, certains éléments sont répétitifs avec les chapitres suivants, lesquels sont davantage pratiques et appliqués. Le texte se trouve donc plus long et plus complexe et la valeur ajoutée n'est pas toujours apparente.

### Chapitre 1 : Préface du Cadre conceptuel

Au paragraphe 1.07, il est mentionné que « Le Cadre conceptuel ne fait pas partie des PCGR [...] ». À notre connaissance, une telle exclusion ne figure pas dans les autres référentiels comptables. Nous sommes d'avis que cette phrase devrait être retirée, puisqu'elle génère des incohérences. À la lecture des modifications corrélatives proposées (exposé-sondage distinct), on retrouve à quelques reprises des références à des chapitres précis du Cadre à l'intérieur même des normes du secteur public (par exemple le paragraphe .04 du chapitre SP 2100, page 11 de l'exposé-sondage sur les modifications corrélatives réfère au cadre conceptuel proposé) ainsi que dans l'exposé-sondage sur le chapitre SP 1202 (par exemple le paragraphe .009, page 13).

De plus, l'alinéa 1.15 c) démontre que l'utilisation du Cadre conceptuel est nécessaire dans l'application des normes, ce qui renforce notre position selon laquelle le paragraphe 1.07 comporte une incohérence. En effet, nous sommes tout à fait d'accord que le Cadre conceptuel aide les préparateurs à exercer leur jugement professionnel dans l'application et l'interprétation d'une norme qui le nécessite.

Nous nous questionnons également sur la pertinence du paragraphe 1.08 dans lequel on vient parler de présence éventuelle d'incohérences. À notre avis, cela vient diminuer la crédibilité du Cadre conceptuel. Nous suggérons de conserver uniquement la 1<sup>re</sup> phrase du paragraphe qui indique que : « *Les PCGR évoluent; ils sont révisés au besoin lorsque les circonstances changent.* » Nous recommandons d'y joindre la dernière phrase de l'ancien chapitre SP 1000.04 qui explique davantage le contexte de l'incohérence à l'effet que le Conseil examinera tout problème de cohérence entre le présent chapitre et tout autre chapitre qu'il sera appelé à réviser. Voici la phrase de l'ancien chapitre qui spécifie que : « *Le Conseil sur la comptabilité dans le secteur public (le Conseil) examinera tout problème de cohérence entre le présent chapitre et tout autre chapitre qu'il sera appelé à réviser, le cas échéant.* »

## Chapitre 2 : Caractéristiques des entités du secteur public

Aux paragraphes 2.43 à 2.46, il est question de la dimension politique de la gouvernance. Nous considérons que les aspects politiques et démocratiques du Canada figurant dans le Cadre conceptuel n'ont pas d'incidence sur la comptabilité. Nous suggérons de retirer cette section.

## Chapitre 3 : Objectif de l'information financière

La figure 3.1 est difficile à comprendre; les relations entre les concepts ne sont pas claires. Nous nous questionnons sur la pertinence de la figure, car elle n'aide pas le lecteur à mieux comprendre les concepts présentés. Le texte du paragraphe 3.31 pourrait être amélioré pour expliquer davantage les concepts de la figure 3.1.

## Chapitre 4 : Rôle des états financiers

Le paragraphe 4.08 précise que la reddition de comptes que permettent les états financiers est limitée pour plusieurs raisons. Cette affirmation nous semble enlever de l'importance aux états financiers, qui constituent une pierre angulaire de la reddition de comptes. Nous relevons une incohérence avec la figure 3.1 qui illustre la nature multidimensionnelle de la reddition de comptes, incluant les états financiers. Nous nous questionnons sur la pertinence de ce paragraphe. Nous suggérons de déplacer le paragraphe 4.09 avant le paragraphe 4.08 en le rédigeant par une formulation plus positive et en définissant l'utilité des états financiers. Par exemple, les états financiers sont une composante essentielle de l'information financière du secteur public, etc.

## Chapitre 6 : Objectifs des états financiers

Les liens que le CCSP souhaite illustrer dans la figure 6.1 ne sont pas facilement compréhensibles. Il y a des concepts qui sont plus larges que les états financiers et nous remettons en question la pertinence d'une telle figure. De plus, les paragraphes 6.04 à 6.08 résument les concepts qui sont énoncés dans le reste du chapitre. Nous nous questionnons sur la valeur ajoutée de ces paragraphes. Comme le nouveau cadre conceptuel est beaucoup plus long que le précédent, nous proposons d'éliminer les redondances et de simplifier le texte pour en faciliter la lecture et la compréhension.

Le paragraphe 6.18 traite des obligations financières et non financières. Nous sommes en désaccord avec cette distinction qui donne lieu à la présentation de passifs non financiers dans le projet de norme SP 1202. À notre avis, ce concept risque de réduire la compréhensibilité de l'état de la situation financière et il n'apporte pas de valeur ajoutée pour les utilisateurs. Voir notre réponse à l'exposé-sondage « SP 1202, Présentation des états financiers » pour plus de détails sur nos préoccupations à cet égard.

Au paragraphe 6.25, le CCSP laisse entrevoir la possibilité de comptabiliser des éléments directement dans les actifs/passifs nets sans passer par les résultats. Nous sommes en accord avec le concept, car le chapitre mentionne explicitement que ces éléments doivent être désignés officiellement par le CCSP pour être utilisés. De plus, ce concept existe dans d'autres référentiels (notamment en IFRS).

Les paragraphes 6.36 à 6.40 traitent de la communication des risques et incertitudes. Bien que l'on vienne mentionner au paragraphe 6.38 que différentes normes prévoient des obligations d'information, il faudrait indiquer clairement que les informations requises dans ces normes permettent de répondre à l'objectif # 6 et qu'il n'est pas nécessaire d'en divulguer davantage. Si on ne circonscrit pas suffisamment ces obligations, cela risque d'entraîner une surabondance de risques décrits dans les états financiers et de générer beaucoup de discussions entre les auditeurs et les préparateurs des états financiers, car plusieurs éléments non requis pourraient être ajoutés. Nous sommes d'avis que l'ajout d'une phrase est nécessaire au paragraphe 6.38 pour préciser que le respect des normes répond à l'objectif # 6.

#### Chapitre 8 : Éléments constitutifs des états financiers

Il pourrait être intéressant d'être plus explicite sur l'approche préconisée pour la comptabilisation des opérations dans les états financiers (bilancielle). Les bases de conclusions sont assez claires à cet effet, mais le cadre conceptuel mériterait d'être clarifié si cette approche doit guider les « priorités ». Si les états financiers sont bien tous aussi importants les uns que les autres, il serait souhaitable d'être plus explicite à ce sujet dans le cadre conceptuel et les bases des conclusions.

Les paragraphes 8.16 à 8.22 énoncent la définition et les caractéristiques des passifs. La notion d'obligation « envers des tiers » a été remplacée par « envers d'autres parties ». Nous sommes en accord avec cette clarification et nous estimons que ce sera facilitant pour l'application de la norme sur les paiements de transfert (SP 3410). En effet, cette notion plus large clarifie qu'il est possible d'avoir un passif envers celui qui subventionne (le cédant) et non envers ses bénéficiaires.

#### Chapitre 8 – Base des conclusions

Le paragraphe BC8.27 renvoie à la note de bas de page 15 qui réfère au chapitre SP 3100. Nous sommes en désaccord avec cette note de bas de page, car elle fait en sorte que la base des conclusions du Cadre conceptuel est plus stricte que la norme, cet élément n'étant pas abordé dans le chapitre SP 3100. Alors que le paragraphe .11 du chapitre SP 3100 mentionne que les rentrées grevées d'affectation d'origine externe doivent être constatées à titre de revenus dans l'exercice au cours duquel les ressources sont « utilisées aux fins prescrites », la note de bas de page stipule que le chapitre SP 3100 ne permet pas la comptabilisation sur la durée de vie de l'actif correspondant ou au cours d'exercices ultérieurs à l'achat ou à la construction de cet actif. Nous n'avons retrouvé aucune mention dans la norme SP 3100 laissant croire clairement ou même implicitement que le SP 3100 ne permet pas la comptabilisation sur la durée de vie de l'actif correspondant et nous sommes d'avis qu'il n'est pas approprié qu'une note de bas de page dans un cadre conceptuel vienne prendre position sur l'interprétation d'une norme. Ce sujet devrait faire l'objet d'un projet de mise à jour de normalisation.

#### Chapitre 9 : Comptabilisation et mesure dans les états financiers

L'alinéa 9.32 b) présente la définition du coût de remplacement. Toutefois, celle-ci devrait être clarifiée, puisque la formulation « somme nécessaire à l'acquisition d'un potentiel de service équivalent à celui qui est inhérent à un actif » est très abstraite. À titre d'exemple, du côté des IFRS, ce coût est décrit comme « le montant qui serait requis actuellement pour remplacer la capacité de service d'un actif ». Pour sa part, le Dictionnaire de la comptabilité et de la gestion financière (Ménard) définit le coût de remplacement ainsi : « [...] coût actuel d'acquisition d'un bien d'une capacité ou d'un potentiel de production ou de service équivalent. »

Les paragraphes 9.37 à 9.40 traitent de la continuité d'activité et mentionnent clairement que celle-ci est présumée pour les organismes publics et les gouvernements. Nous sommes en accord avec cet énoncé. Dans certaines situations, la continuité d'exploitation de l'entité est remise en question dans le secteur public, notamment lors d'une dissolution. Toutefois, il arrive fréquemment que ses activités se continuent dans une autre entité à l'intérieur du périmètre comptable. Par conséquent, cela n'a généralement pas pour effet de remettre en question la base de mesure des actifs. Il est très rare que des activités et services du secteur public cessent complètement. Par conséquent, on suggère un ajout dans ce sens dans le paragraphe 9.39 à cet effet puisqu'il est très rare d'avoir besoin de revoir la base de mesure des actifs et passifs dans ce contexte.

#### Chapitre 10 : Concepts de présentation relatifs aux états financiers

Selon le paragraphe 10.25, « il peut arriver que la loi oblige certaines entités à présenter dans leurs états financiers des informations qui ne respectent pas les normes et/ou le Cadre conceptuel. » Toutefois, il faudrait préciser les circonstances, puisque cela ne devrait concerner que la présentation d'informations supplémentaires. Il devrait être clairement indiqué que cela ne pourrait pas remplacer des informations nécessaires au respect des PCGR.

Nous sommes donc en désaccord avec le paragraphe BC10.15 de la base des conclusions, qui mentionne qu'il peut arriver, bien que rarement, que certaines entités soient tenues par la loi de présenter (c'est-à-dire comptabiliser, de présenter dans le corps des états financiers ou de fournir par voie de notes ou tableaux complémentaires) des informations qui ne respectent pas les normes.

La possibilité est donc plus large dans la base des conclusions que dans le texte du Cadre conceptuel, puisque cela pourrait aller jusqu'à la comptabilisation. Dans ce type de situation, l'auditeur serait dans l'obligation d'émettre une réserve au rapport de l'auditeur.

Il pourrait être possible d'avoir des informations supplémentaires après les notes aux états financiers, mais il ne faudrait pas le permettre dans le corps des états financiers et les notes. Cela devrait être spécifié dans le cadre conceptuel et la base des conclusions devrait être ajustée en ce sens. Les lois ne doivent aucunement affecter la comptabilisation, puisque le référentiel comptable est basé sur la substance économique des transactions.

#### Chapitre 10 - Base des conclusions

Au paragraphe BC10.10, il est mentionné que les notes font partie intégrante des états financiers et que, par conséquent, elles sont importantes. Il est mentionné que les notes et tableaux ont la même importance que les informations comptabilisées et présentées dans le corps des états financiers. Il faudrait préciser que les notes ne peuvent pas remplacer une comptabilisation qui est nécessaire en vertu des normes du secteur public, puisque cela ne permettrait pas d'atteindre l'objectif redditionnel qui est recherché par la comptabilisation.

#### Glossaire

##### *État des finances :*

Cette définition n'est pas reprise dans le Cadre conceptuel et n'est pas utilisée ensuite dans aucune norme. Nous suggérons de la retirer ou de la simplifier, car elle est laborieuse et nous nous questionnons sur son utilité.

*Obligations financières et non financières :*

Nous sommes en désaccord avec le concept d'obligations « non financières » (voir nos commentaires exprimés sur le chapitre 6). Nous sommes d'avis qu'il faut retirer la distinction entre les obligations financières et non financières.

*Performance financière :*

Ici aussi, nous trouvons que la définition est complexe alors qu'il s'agit d'un concept déjà bien compris par les utilisateurs. Nous suggérons de la simplifier.



Michael Puskaric  
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277 Wellington Street West  
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Dear Mr. Puskaric:

SUBJECT: The Conceptual Framework for Financial Reporting in the Public Sector and  
related Consequential Amendments

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Thank you for the opportunity to comment on the Exposure Draft (ED) *The Conceptual Framework for Financial Reporting in the Public Sector*. Our response to the specific question posed is provided in Appendix A below.

Please note that we have no comments on the ED *Consequential Amendments Arising from the Proposed Conceptual Framework*, as it appropriately reflects the proposals in the Conceptual Framework.

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](mailto:blair.kennedy@tbs-sct.gc.ca) (613-404-2996) or myself at [diane.peressini@tbs-sct.gc.ca](mailto: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



## Response to Question Posed

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

#### 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 conceptual framework should be better aligned with that of the IPSAB. Otherwise, we foresee significant issues going forward with this strategy. Our specific concerns are noted in the responses below.

In addition, we have reviewed the recently issued document comparing PSAB's and IPSAB's conceptual frameworks. While this high-level summary identifies some of the issues that we have raised, we have concerns that:

- the theoretical aspects of the differences in the conceptual frameworks have been minimized in favour of current practice (e.g. the differences in the definitions of assets and liabilities, as explained below), and
- there is insufficient consideration of how these differences will impact the application of the recently proposed changes to the GAAP hierarchy.

We agree with the proposed concepts in the conceptual framework except as follows:

#### Chapter 3

##### Service capacity concept

We agree with the change in the description of the service capacity concept, as addressed in Chapter 3, which recognizes that financial statements only report on certain aspects of service capacity. However, when considering alignment with IPSAS, we believe that those aspects of service capacity recognized in financial statements can be further broken down into "operating capacity" and "financial capacity", where:

- Operating capacity is the capacity of the entity to support the provision of services in future periods through physical and other resources.
- Financial capacity is the capacity of the entity to fund its activities.

This distinction is used by IPSASB in selecting the most appropriate measurement bases for assets and liabilities, and, therefore, we suggest that the concepts of operating and financial capacity be considered for inclusion in PSAB's conceptual framework.

#### Chapter 8: Elements of Financial Statements

As stated in our response to the SoC, we are not in agreement with the element definitions for assets and liabilities because the expectation of receiving or sacrificing future economic benefits has been retained in these definitions. Consequently, there is a lack of alignment with the asset and liability definitions of the IPSASB. In addition, it is not clear why the concept of "expectation" of receiving or sacrificing future economic benefits is discussed in Chapter 9 with respect to realization uncertainty but is not discussed in Chapter 8 where it first appears.

We acknowledge that other respondents to the SoC did not support removing the requirement that an asset embodies the expectation of future economic benefits from the definition because it may lead to

more work to identify assets that will not be recognized. However, as demonstrated in our example below, this requirement may also create a lack of transparency in Canadian public sector financial statements, and a lack of consistency and comparability between public sector entity financial statements.

- Whether an entity expects to receive future economic benefits from a resource is an entity-specific concept. Embedding this requirement in the definition of an asset may result in an item with the capacity to provide future economic benefits meeting the definition of an asset for one entity but not for another. We believe that the intrinsic characteristics of the economic resource itself should drive whether it meets the definition of an asset. This same conceptual argument can be applied to the proposed liability definition, which requires that there is an expectation that future economic benefits would be sacrificed.
- The Government of Canada's investments in capital subscriptions of multi-lateral development banks (MDBs) is an example of different element definitions in PSAS versus IPSAS leading to different accounting results. Some MDBs are characterized as "non-concessional", as they are profitable and issue highly rated debt instruments. The substance of the subscription to the share capital of most non-concessional MDBs is that of a puttable investment – the investing government may withdraw at anytime by putting back its investment to the MDB, and is entitled to receive back its initial investment plus its pro rata share of the net earnings (the investment cannot be sold in a secondary market). Given that the Government of Canada generally does not expect to withdraw its subscription, there is no expectation of realizing future benefits, and, consequently, these investments have been fully provided for and treated as transfer payments in our financial statements. However, other national governments do not fully provide for these investments as they are not impaired: those applying IFRS/IPSAS measure their capital subscriptions in non-concessional MDBs at fair value. The differences in the definitions of elements and the recognition criteria have led to a different accounting treatment under IPSAS compared to PSAS for the same investments.
- Consequently, we believe that PSAB should adopt the asset and liability definitions in the IPSASB's conceptual framework. Any practical issues related to additional work to identify assets and liabilities under these definitions that would not be recognized because they cannot be measured can be dealt with at the standards level.

In addition, we have concerns that equity ownership, although relatively rare in the public sector, is not reflected in the elements. By comparison, the IPSASB's conceptual framework includes "ownership contributions" and "ownership distributions" as elements whereas PSAB views any equity ownership interest as a subcomponent of net assets/liabilities.

- The discussion in the Basis for Conclusions, paragraphs 8.39-8.41, states that, as an equity ownership interest represents a subcomponent of net assets/liabilities, this should not be considered a separate element. We believe that this is a circular argument because it is dependent on the definitions of revenues and expenses, and the IPSASB excludes ownership contributions and distributions from these definitions.
- Consequently, we find it is not clear how the proposals for issued share capital in PS 1202 fit into PSAB's element definitions, nor does the conceptual framework support why other types of ownership interests are not considered in the same way as share capital.

In our opinion, the lack of alignment with the IPSASB's element definitions is likely to lead to issues adapting IPSAS when developing new PSAS in the future and in applying the recently revised GAAP hierarchy.

## Chapter 9: Recognition and Measurement

### Recognition

We do not agree with the proposed recognition criteria and believe that the recognition criteria are aligned with those of the IPSASB.

As noted in our response to the SoC, we believe that the recognition criteria in IPSAS, i.e. an item is recognized when it meets the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of constraints of information, is more conceptually sound than that proposed in PSAB's conceptual framework. Additionally, under IFRS, the recognition criteria state that recognition is only appropriate if it results in both relevant information about the element being recognised, and faithful representation of that element. In both the IPSAS and IFRS frameworks, uncertainty about the expectation of receiving or sacrificing future economic benefits is reflected in the measurement of the asset or liability.

Notwithstanding the above, with respect to the recognition criteria proposed in the ED, we do not agree with:

- Recognition criterion 9.05(b): this is redundant given that the expectation of receiving or sacrificing future benefits is already embodied in the definition of an element.
  - As noted above, we believe that the expectation of receiving or sacrificing future benefits should be removed from both the element definitions and recognition criteria, and instead be reflected in the measurement of the item, consistent with IPSAS and IFRS.
- Recognition criterion paragraph 9.05(c) as written: this criterion states "the item, transaction or other event can be measured".
  - This statement does not provide sufficient information for entities to make a judgement on measurement. Additional clarity is needed based on the qualitative characteristics of information, such as whether the measurement of the item faithfully represents what it purports to represent, whether the information is relevant and whether it takes into account the constraints on financial information.
  - Consequently, we suggest changing this recognition criterion to align with that used by the IPSASB as noted above; i.e. to state "that the item can be measured in a way that satisfies the qualitative characteristics of information and takes account of constraints on information...". We believe that emphasizing the qualitative characteristics of information provides clearer guidance on whether an item can be measured and which is the appropriate measurement basis to be used. This links back to the chapters on the objectives of financial information and financial statement objectives.

### Measurement – Historical Cost

We do not agree with the description of historical cost in 9.32(a), as historical cost should be an entry value that is based on, or derived from, an initial transaction price that reflects the resources given up to acquire an asset, or the resources received to assume an obligation. Specifically, in our opinion, historical cost cannot be applied when a liability does not arise from a transaction between parties, and may not provide relevant information when a liability arises from a non-exchange transaction or varies in amount due to estimates involved related to its settlement.

- Where liabilities have no initial transaction price (e.g. liabilities for contaminated sites), the initial estimate, and subsequent changes in estimate, reflect the cost to exit the obligation at the financial statement date. The measurement requirements for these liabilities are not derived

from a historical transaction price. In our opinion, the use of current estimates that measure the amount to exit these liabilities does not reflect historical cost measurement.

- Consequently, we suggest that the measurement of these types of liabilities would be better represented by a current cost basis, such as the IPSASB's "cost of fulfillment" or IASB's "fulfillment value".

We urge PSAB to review the work currently underway by the IPSASB on measurement, including the proposed measurement models, measurement bases and measurement techniques. This work considers whether the appropriate measurement is current or historical, reflects an exit or entry value, and is entity-specific or non-entity-specific. In particular, we suggest that PSAB considers including the cost of fulfillment measurement basis for liabilities in the conceptual framework, to measure those liabilities for which there is no initial transaction price or is based on an estimate to exit the obligation.

Given PSAB's international strategy, using the same measurement concepts as the IPSASB will alleviate issues that may ultimately arise if historical cost is not defined in the same way, or when other measurement bases are used in IPSAS but are not introduced in PSAB's conceptual framework.

## 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 – *The Conceptual Framework for Financial Reporting in the Public Sector***

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 question posed in the Exposure Draft.

Sincerely,

Lissa Lamarche, CPA, CA

Assistant Auditor General  
Office of the Auditor General of Canada

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

### **Question 1**

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

#### OAG response:

We agree with the concepts in the proposed Conceptual Framework; however, there are several areas where we think clarifications or improvements to the proposals are needed as outlined further below:

### **Chapter 5: Financial Statement Foundations**

#### **Control (paragraph 5.22-5.23)**

While we agree with the concept of control and think that the examples in paragraph 5.22-5.23 are helpful in understanding the context in which these paragraphs apply, we think the potential for some confusion between the concepts in paragraph 5.22 and PS 1300, *Government reporting entity* still exists.

More specifically, the statement in paragraph 5.22 that "...until such a power or right is invoked, control of that other entity would not be considered to exist for financial statement purposes. Control over another entity would only exist as a result of invoking that power or right..." and in paragraph 5.23 that "simply having a power, a right or other ability to raise economic resources in the future is not control of those resources..." is in contrast to PS 1300.09 which states that "a government may choose not to exercise its power; nevertheless, control exists by virtue of the government's ability to do so..." In order to minimize the risk of confusion, we think that PSAB should consider whether these two paragraphs could be removed or alternatively reworded so that it is more explicitly clear that these paragraphs are not talking about the same concepts as those contained in PS 1300 and thus do not override what is included in that standard.

### **Chapter 6: Financial Statement Objectives**

#### **Financial and non-financial liabilities (paragraph 6.18)**

Paragraph 6.18 introduces "two categories of economic obligations: financial and non-financial." As mentioned in our response to PSAB's ED: Financial Statement Presentation, Proposed Section PS 1202, we find the liability definitions to be somewhat confusing and think they will be difficult to apply in practice. While we acknowledge that these two new categories of liabilities align with the new calculation of net financial liabilities or net financial assets, we are concerned 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 (i.e. that "A non-financial asset is an asset that does not meet the definition of a financial asset").

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 would encourage PSAB to reflect further on these proposals to ensure that they lead to an increase in understandability rather than a decrease.

**Use of amended budgets (paragraph 6.31)**

We are pleased to see that PSAB has narrowed the circumstances for which presenting an amended budget would be allowed and we are supportive of the revised proposals in this area, 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 also consider whether the circumstances provided for amended budgets have been sufficiently 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.

**Objective 5 (paragraph 6.32)**

We note that the objective and related section is now worded more narrowly than was the case in the Statement of Concepts, A Revised Conceptual Framework for the Canadian Public Sector. Specifically, we note that PSAB has replaced “legislative authorities” with “financial authorities”. We understand from reading BC6.23 that the intent of this objective “is to consider solely non-compliance with financial authorities in relation to revenue, borrowing, investing, expense and expenditure limits” and that this is the same intent as that of Objective 4 in the existing conceptual framework (PS 1100.61), although the existing conceptual framework does 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.

**Chapter 9: Recognition and Measurement in Financial Statements**

**The Measurement Attribute (paragraph 9.34-9.36)**

PSAB acknowledged in BC9.24 that the requirement in this ED is “tighter” than that in the existing conceptual framework (PS 1000.60), although it is indicated that this was also the intent in the existing conceptual framework.

While we agree that there should be a primary measurement basis, we are somewhat concerned that this tighter wording in the ED may have unintended consequences for preparers that turn to a secondary source of GAAP for guidance to account for specific items not currently addressed by PSAS. We note that in PS 1150.19 (which was recently amended), preparers are directed to consult IPSAS first when selecting a secondary source of GAAP. Since a secondary source of GAAP needs to be consistent with the concepts described in PS 1000, *Financial statement concepts* (PS 1150.05(b)), we are concerned that this tighter language around the primary measurement attribute might unduly restrict preparers from using a measurement basis from a secondary source other than historical cost.



For example, currently we have entities with inventories held for consumption or use. Some entities value those inventories at historical cost, while others use the lower of historical cost or replacement cost based on PS 1000.60. The language in the current ED suggests that preparers can only deviate from historical cost when PSAB makes that determination. We would therefore encourage PSAB to further clarify its intent with respect to selecting a measurement basis other than historical cost for which no PSAS yet exists so as not to unduly restrict preparers from selecting another measurement basis from a secondary source of GAAP such as IPSAS.

## **Chapter 10: Presentation Concepts for Financial Statements**

- Paragraph 10.23(e) says (emphasis added) “any critical information about the entity that is necessary...” We recommend replacing the underlined wording with “material” or removing the underlined word for added clarity as it may not be necessary.
- Paragraph 10.25 states that “There may be instances where legislation requires certain entities to present information in the financial statements that is inconsistent with standards and/or the proposed Conceptual Framework. In these rare circumstances, this information is to be clearly disclosed as being inconsistent with the standards and/or the Conceptual Framework.”

This statement seems to conflict with Presentation Concept 3 in paragraph 10.21. It seems inconsistent to include such a statement in the proposed conceptual framework as 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 paragraph 10.25 is therefore 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 that would be reasonable.

We recommend that PSAB clarify the meaning of paragraph 10.25 so it does not conflict with paragraph 10.21, 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: Financial Statement Presentation, Proposed Section PS 1202.

## **Glossary**

The Glossary definition of “recognition” is not consistent with the glossary definition of “derecognition” in that derecognition includes the criteria for derecognition whereas recognition does not. We recommend PSAB consider whether the criteria for recognition should be provided or whether the criteria for derecognition should be removed for consistency.

## **Other comments**

### **Implication for PSAB’s international strategy (BC8.47-8.49)**

The Basis for conclusions (BC8.47 to .49) acknowledges that there are differences between the IPSASB conceptual framework and PSAB’s proposed conceptual framework and that there may need to be a departure from the principles in an IPSAS if there was a conflict. Now that PSAB has selected Option 2 for its international strategy, we would encourage PSAB to consider whether there are other areas in the proposed conceptual framework that should be more closely aligned with the IPSASB conceptual framework so as to remove any potential conflicts that are not sufficiently warranted.

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](mailto:wharding@brantford.ca).

Sincerely,



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Manager of Accounting

cc. Donna Herridge, Municipal Finance Officers' Association of Ontario ([donna@mfoa.on.ca](mailto: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

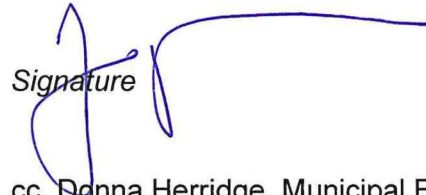
*m.puskaric@psab  
Canada.ca*

- 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](mailto:jwhyte@villageofwestport.ca)).

Sincerely,

*Signature*

A handwritten signature in blue ink, consisting of a stylized 'D' followed by a horizontal line that curves upwards at the end.

cc. Donna Herridge, Municipal Finance Officers' Association of Ontario ([donna@mfoa.on.ca](mailto: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.



**Respondent No:** 2  
**Login:** jsilvestre  
**Email:** jsilvestre@surrey.ca

**Responded At:** Jun 27, 2021 18:53:28 pm  
**Last Seen:** Jun 27, 2021 22:26:00 pm  
**IP Address:** 97.107.191.71

**Q1. 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

---

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

Overall, we believe that the new conceptual framework will provide a complete, relevant, and updated set of concepts that will guide PSAB in developing new standards on a prospective basis. This will also create a foundation for the application of accounting policies, guidance on standards, as well as the presentation for the financial statement. We continue to advocate and bring awareness to PSAB that the primary users are the public and those elected to oversee public entities. This is confirmed in the conceptual framework and therefore it is important to consider these primary users when developing standards that may increase their confusion and lead to further distrust of public financial statements. Providing clear standards with examples will help to remove creative interpretation and will go far in this regard. Areas such as recognition and measurement are prime examples as there is currently plenty of room for creative interpretation and determination of variables that have big impacts to the measurement of the financial transactions.

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**Q3. Do you agree with the proposed consequential amendments outlined in Exposure Draft, "Consequential Amendments Arising from the Proposed Conceptual Framework"?** Yes

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

No further comments.

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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: The Conceptual Framework in Financial Reporting in the Public Sector, and Consequential Amendments Arising from the Proposed Conceptual Framework**

This letter includes our response to the following two exposure drafts:

With respect to the *Exposure Draft: The Conceptual Framework in Financial Reporting in the Public Sector* (January 2021), we are in general agreement with the concepts outlined in the proposed Conceptual Framework other than a few concerns as outlined in the attachment. In addition, the attachment sets out suggested improvements.

With respect to the *Exposure Draft: Consequential Amendments Arising from the Proposed Conceptual Framework* (January 2021), we agree with the proposed consequential amendments.

Yours truly,

Judy Ferguson, FCPA, FCA  
Provincial Auditor

JR/dd

Attachment

	Question	Response
1	Do you agree with the concepts in the proposed Conceptual Framework?	<p>Overall we are generally supportive of the proposed concepts other than following concerns:</p> <p><b>Chapter 2:</b></p> <ul style="list-style-type: none"> <li>▶ Paragraphs 2.11 to 2.70 Characteristics of Public Sector Entities – while we are supportive of the removal of the definition of “government” from the glossary, we find the shift of the terminology between public sector entities and governments throughout somewhat confusing. For example, paragraphs 2.22 to 2.23 refer to “governments”, whereas these can also be powers, rights and responsibilities afforded to “public sector entities”. To clarify, we suggest describing the relationship between the terms “government” [government level –used in 2.29),” public sector entity”, “government organizations” and “components”. That is, public sector entity can encompass a government, a government organization and component. Note: this is similar to the concern expressed about the term ‘government’ on page 5 to Question 5 in the 15 January 2019 Joint response of the Canadian Auditors General to the related Statement of Concepts.</li> <li>▶ Paragraph 2.33 – While paragraphs 2.47 to . 50 appropriately reflect variations exist, we question the accuracy of paragraph 2.33 as it relates to governments’ overall budgets in that it implies the approval of an overall budget is always required. Rather for some senior governments (like Saskatchewan), the legislators are only required to approve the Estimates (an subset of the overall budget) and there is no formal approval of the overall budget. To clarify, we suggest PSAB consider providing additional guidance as to what constitutes “appropriate authority” (referred to in proposed PS1202.198) in situations where legislatures of sovereign governments do not approve overall budgets.</li> </ul> <p><b>Chapter 6:</b></p> <ul style="list-style-type: none"> <li>▶ Paragraph 6.31: As noted in our response to PS 1202, we disagree with allowing the presentation of amended budgets in the statement of operations. Rather, we think, new governments should explain variances from the originally approved budget; explanations may include changes</li> </ul>

	Question	Response
		<p>made under its control (e.g., different priorities, new programs or removal of programs).</p> <ul style="list-style-type: none"> <li>› Chapter 6: We suggest PSAB (when discussing financial and non-financial resources and obligations) explicitly linking the determination of economic resources or economic obligations to the identification of assets and liabilities as described in proposed PS 1202.</li> </ul>
	<p>Additional comments:</p>	<p>We have identified the following potential areas of improvement:</p> <p><b>Chapter 1:</b></p> <ul style="list-style-type: none"> <li>› Paragraph 1.09: We suggest as a consequence of PSAB’s intention to use “basis of conclusions” documents to justify departures from aspects of the Conceptual Framework (even if rare) that PSAB adapt its “Phases of Due Process” to require explicit and early identification where departures are anticipated, and explicit Board consideration of the justification thereof. This would enhance public confidence that such departures serve the public interest. [We fully recognize the Board’s Due Process is outside of the scope of the conceptual framework and standards.]</li> </ul> <p><b>Chapter 2:</b></p> <ul style="list-style-type: none"> <li>› Paragraphs 2.17–2.21 are silent on the ability of public sector entities to obtain public resources by imposing user fees. The Framework could list this commonly used ability for which provide a substantive source of resources for some entities.</li> <li>› Paragraphs 2.22–2.23 are silent with respect to governments’ power of expropriation. While we recognize the listing is not intended to be all inclusive, we see value in listing this power as it is generally unique to governments, and its inclusion would be consistent with the reference to expropriation in paragraph 5.23 (b).</li> </ul>



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](mailto: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”
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 Trish Malmberg at [Trish.Malmberg@thunderbay.ca](mailto:Trish.Malmberg@thunderbay.ca)

Sincerely,



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



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 « Le Cadre conceptuel de l'information financière dans le secteur public »**

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 les concepts énoncés dans le cadre conceptuel proposé?

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.

Tout d'abord, nous nous questionnons sur l'utilisation du terme « quelque chose » dans la définition de contrôle proposée au paragraphe 5.11. En effet, nous nous demandons à quoi réfère ce terme si ce n'est pas une ressource économique ou une entité.

Dans le même sens, la définition de « ressource économique » ne devrait pas référer au terme « chose ». En effet, ce terme est trop abstrait et semble référer uniquement à des éléments matériels, ce qui exclurait notamment les droits et les éléments incorporels. Nous proposons d'utiliser la formulation suivante : « Une ressource économique représente une valeur pour une entité [...] », ce qui serait cohérent avec la formulation utilisée dans la version anglaise et avec le paragraphe 6 du chapitre SP 3210 Actifs.

Ensuite, nous sommes d'avis que des indications supplémentaires sont nécessaires concernant le coût historique dans le chapitre 9. En effet, l'élaboration du chapitre SP 3160 PARTENARIATS PUBLIC-PRIVÉ a suscité beaucoup de questionnements à l'égard du coût historique au moment de la comptabilisation initiale, comme en témoigne les bases des conclusions de ce chapitre. Nous croyons que les indications du chapitre 9 devraient faire ressortir les éléments suivants :

- le coût historique correspond à la juste valeur de l'actif ou du passif au moment de la comptabilisation initiale;
- la juste valeur doit tenir compte du potentiel de service dans le secteur public, car beaucoup de ressources sont associées à un potentiel de service futur plutôt qu'à des flux de trésorerie futurs;
- le coût historique peut correspondre à des coûts directement attribuables engagés au moment de la comptabilisation initiale comme il est indiqué dans les chapitres SP 3150 IMMOBILISATIONS CORPORELLES et SP 3160.

Finalement, nous sommes d'avis que la définition d'obligations économiques incluse dans le glossaire devrait comprendre la précision suivante « Devoir ou responsabilité envers d'autres parties [...] ». Cette précision est cohérente avec les caractéristiques essentielles d'un passif énoncées au paragraphe 19 du chapitre 8. Si cette proposition est retenue, le paragraphe 8.20 doit également être ajusté.

## 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 governments<sup>1</sup>, components...”*

<sup>1</sup> *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 programs<sup>2</sup>, funds<sup>1</sup> and units<sup>2</sup>. Depending on their objective(s).....”*

<sup>1</sup> terminology from paragraph .04 of the Introduction

<sup>2</sup> 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 <sup>27</sup>."*

- 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
<b>Financial assets</b>		
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>
<b>Financial liabilities</b>		
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>
<b>Resources available (required)</b>	<u>(10,223)</u>	<u>(8,870)</u>
<b>Non-financial assets</b>		
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>
<b>Non-financial liabilities</b>		
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>
<b>Net non-financial assets</b>	<u>7,370</u>	<u>7,457</u>
<b>Net assets (net liabilities)</b>	<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>
<b>Net financial liabilities</b>	<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
<b>Revenues</b>			
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>
<b>Expenses (by function)</b>			
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>
<b>Surplus (Deficit)</b>	<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
<b>Accumulated deficit</b>		
(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>
<b>Accumulated remeasurement gains and losses<sup>1</sup></b>		
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>
<b>Accumulated other</b>		
Other revenue and expense recognized directly in net assets (net liabilities)	10 <sup>2</sup>	-
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>
<b>Total net assets (net liabilities)</b>	<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
<b>Operating transactions</b>		
(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)
<b>Cash (applied to) provided by operating transactions</b>	<u>(2,777)</u>	<u>2,746</u>
<b>Capital transactions</b>		
Capital transfers received	495	400
Proceeds on sale of tangible capital assets	46	72
Cash used to acquire tangible capital assets	(294)	(250)
<b>Cash provided by capital transactions</b>	<u>247</u>	<u>222</u>
<b>Investing transactions</b>		
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)
<b>Cash provided by (applied to) investing transactions</b>	<u>129</u>	<u>(258)</u>
<b>Net cash (applied to) provided by operating, capital and investing activities</b>	<u>(2,401)</u>	<u>2,710</u>
<b>Net cash before financing transactions</b>	<u>475</u>	<u>5,357</u>
<b>Financing transactions</b>	-	-
Public debt issues	15,361	3,694
Public debt retirement	(14,759)	(6,175)
Contribution from third party	10	-
<b>Cash provided by (applied to) financing transactions</b>	<u>612</u>	<u>(2,481)</u>
<b>Cash and cash equivalents at end of period</b>	<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
<b>Change pertaining to operating surplus (deficit)</b>	<b>28</b>	<b>(1,624)</b>	<b>2,551</b>
Acquisition of tangible capital assets	xxx	(294)	(250)
Amortization of tangible capital assets	xxx	xxx	xxx
Other	-	xxx	xxx
<b>Change pertaining to tangible capital assets</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>
Acquisition of supplies inventories and prepaid expense	-	xxx	xxx
Consumption of supplies inventories and prepaid expense	-	xxx	xxx
<b>Change pertaining to other non-financial assets</b>	<b>-</b>	<b>xxx</b>	<b>xxx</b>
<b>Change pertaining to net remeasurement gains and losses</b>		<b>xxx</b>	<b>xxx</b>
<b>(Increase) Decrease in resources required</b>		<b>xxx</b>	<b>xxx</b>
Resources required at beginning of year	(1,413)	(1,413)	0
<b>Resources required at end of year</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>



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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 - The Conceptual Framework for Financial Reporting in the Public Sector**

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 Conceptual Frameworks will provide a solid foundation to guide the Board in developing new standards and amending existing standards. We also believe the guidance set out in the proposals will assist stakeholders in understanding and applying the standards.

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

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

In general, we agree with the concepts in the proposed Conceptual Framework. However, there are some areas where we believe clarity is needed.

*Control*

We appreciate the Board revising the guidance on control included in Chapter 5 of this Exposure Draft from what was originally proposed in the Statement of Principles. We believe the changes address many of the original issues we had identified in the Statement of Principles. However, we still strongly disagree with the way control is described in paragraph 5.22, which proposes that a public sector entity must exercise its power and rights in order to have control. Paragraph 5.22 states that:

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. Control over another entity would only exist as a result of invoking that power or right...

This is a direct contradiction to the existing guidance in Section PS 1300. Paragraph PS 1300.18(a) states that one of the indicators that provides more persuasive evidence of control is that a government has the power to unilaterally appoint or remove a majority of

the members of the governing body of the organization. Subparagraph 19(a) further supports this ability of a government to appoint or remove members of the governing body. Another persuasive indicator is sub-paragraph PS 1300.18(d), which states that a government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations. In many cases, a public sector entity has the power and right to appoint or remove the majority of the members of the governing body of another organization and/or the power to dissolve the organization. For example, this is the case for most government not-for-profit organizations (e.g. hospitals, colleges, etc.) as the controlling public sector entity has this ability. Typically, the controlling public sector entity does not choose to exercise these rights and powers on a regular basis. Instead, they allow the government not-for-profit organization to follow its regular process for appointing members to the governing body and continuing to operate. However, the fact that the public sector entity does not choose to exercise these rights or powers does not mean that the public sector entity does not currently have control over the other organization. In these situations, the public sector entity has control over the other organization and can choose to exercise its rights and powers at its discretion.

While we understand the issue the Board is trying to address with paragraph 5.22 (e.g. explaining that the right to invoke future legislation to take over other entities or existing rights to nationalize private sector entities does not give a public sector entity control over those other organizations at this point in time), the way this paragraph is currently described contradicts the guidance in Section PS 1300. This will only add confusion for stakeholders when determining control under PSAS and may lead to unintended consequences and incorrect determinations of control or lack of control. Therefore, we recommend paragraph 5.22 in its entirety be removed from the proposed conceptual framework.

#### *Prudence*

Paragraphs 7.45-7.46 and BC7.28-7.32 of the proposed conceptual framework discuss prudence. Prudence is often a misunderstood concept, as some believe it is the same as conservatism. While we appreciate the clarifications the Board has added to the Basis of Conclusions to better explain the difference between prudence and conservatism, not all readers of the PSA Handbook read the Basis of Conclusions documents. We would encourage the Board to include a sentence in the main body of the Conceptual Framework in either paragraph 7.45 or 7.46 simply stating that prudence is not the same as conservatism to ensure this is clear to readers.

#### *Legislative Requirements Inconsistent with PSA Handbook*

Paragraph 10.25 and BC10.15 explain 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 identified and disclosed. However, in such a case the financial statements would not be prepared in compliance with PSAS, which would be a GAAP departure. This would then 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. As a result, we believe paragraphs 10.25 and BC10.15 need to be clarified to explain that in such a situation the financial statement would not be prepared in accordance with PSAS. Refer also to our response to PSAB's Exposure Draft - Financial Statement Presentation Proposed Section PS 1202 for further comments on this issue.



### *Sustainability/ESG*

We appreciate that in several places throughout the proposed conceptual framework the importance of reporting for public accountability purposes on both financial and non-financial information related to a public sector entity's sustainability has been highlighted. Stakeholders are increasingly asking for information about an entity related to sustainability/ESG, so that they have this information available for decision making and capital allocation purposes. Such requests will only increase as time goes on and as such it is important for standard setters to consider the interconnectivity between financial and non-financial reporting and be leaders in this area. As a result, we believe it is important the Board keep this in mind while finalizing the proposed conceptual framework to ensure it allows for future projects the Board may take on related to sustainability/ESG reporting, whether that reporting ultimately takes place within the financial statements or outside via other accountability reports.

### *Living Document*

One final comment we would like to make is that a conceptual framework should be seen as a living document. There are currently differences between the PSAS conceptual framework and the IPSAS conceptual framework. We understand the IPSASB is currently in the process of making updates to its conceptual framework. We believe PSAB should stand ready to make changes to its conceptual framework as needed, if and when IPSASB makes changes to its conceptual framework, to allow for a smooth implementation of PSAB's international strategy.

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

Yours sincerely,

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

Armand Capisciolto, FCPA, FCA  
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416-369-6937



**Auditor General**  
MANITOBA

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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 – The Conceptual Framework for Financial Reporting in the Public Sector**

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 to the conceptual framework. Our response below focuses on our areas of concern.

**Reporting Financial Position paragraph 6.18**

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 are 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.

**Reporting Financial Position paragraph 6.22**

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.

**The Measurement Attribute paragraph 9.34-9.36**

We have concerns that using historical cost as the primary measurement basis unless PSAB determines another measurement attribute better serves the accountability objective is too restrictive. Specifically, this could cause measurement issues when a secondary source of GAAP is used as a PSAB standard doesn't exist. It's possible the secondary source of GAAP has a measurement basis that is not historical cost. It's unclear in this situation if it would be permitted under PSAB to use this other basis of measurement, or if historical cost must be used. Accordingly, we suggest that PSAB clarify the paragraphs to address this.

Sincerely,

Phil Torchia, CPA, CA  
Assistant Auditor General, Professional Practices and Quality Assurance



Wayne Morgan, PhD CPA CA CISA  
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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 3<sup>rd</sup> component of net assets: accumulated other*

19. We note the flexibility that “accumulated other” provides in dealing with particularly difficult issues, such as endowments or Crown assets. However, we do not agree with the “accumulated other” concept, without more precise concepts of net assets, control and realization being included in the conceptual framework. We believe net assets may need to be independently defined as an element, rather than defined as a residual of other elements, if it is going to be something other than the mathematical accumulation of prior surplus/deficits. We agree that it is not as straightforward to define “net assets” as for private sector organizations, or even for not-for-profit organizations. However, we believe it is important to independently define because it may help resolve other conceptual issues.
20. In our view “accumulated other” results from a vagueness in the concept of “control” that is in the definition of asset. This is best illustrated with accounting for endowments. We note that the conceptual framework has not resolved whether endowment contributions are revenue (that would be on the statement of operations), but we also do not think that endowments (or other matters, such as Crown assets) necessarily merit creation of “accumulated other”. If a pure asset/liability model is used, with the concept of realization, perhaps endowments would not meet criteria for recognition as assets and may be better presented as trust funds under administration. If the entity is not free to use the endowment fund as it chooses, how does the entity have “control” of the asset? We note this also has implications for restricted assets PS 3100, and government transfers and revenue accounting, where the “performance obligation” concept seems to be recognizing that the control over the asset is incomplete, or has not yet been realized, before recognition of revenue occurs. It may be that an entity should not record the asset unless it has (or will have as a result of its actions) unencumbered control. If this will never occur for some items, such as may be the case for endowments, perhaps PSAB should consider these as trust assets with restrictions under administration, that are not recognized in the entity’s financial statements. We agree with recognition of the asset, and deferral of revenue, when the entity has the ability to remove the restrictions, and retain the asset, through its own actions, as is the case with capital transfers.
21. We suggest that PSAB adopt a fundamental recognition and measurement principle that all accounting requires at least two of the conceptual framework elements<sup>1</sup>. 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.”

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<sup>1</sup> 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  
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**Office of the Provincial Controller Division**  
Controllershship Policy and Accounting Consultation

## **Province of Ontario’s Response to PSAB’s Exposure Draft: “The Conceptual Framework for Financial Reporting in the Public Sector”**

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Following is the Province of Ontario’s response to PSAB’s Exposure Draft on the Conceptual Framework for Financial Reporting in the Public Sector. Response to the specific question is provided below:

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

Ontario continues to have significant concerns with many of the proposals included in the Conceptual Framework Exposure Draft, some of which were previously communicated to PSAB. Many of the proposals in this Exposure Draft do not enhance accountability of public sector entities and do not consider the public as the being the primary user of financial reporting. Many of the proposals introduce unnecessary complexity which will not be well understood. They do not address the concerns of the Joint Working Group and are not reflective of financial performance in the public sector. Ontario has similar concerns in relation to the changes PSAB is proposing to the reporting model which will be communicated in a separate response letter to that Exposure Draft.

Many of the proposals are also not consistent with either the conceptual framework in IPSAS or the specific requirements in various Public Sector Accounting Standards. PSAB acknowledges these differences but has not provided any summary or explanation of what these differences are, the consequence of such and how these differences will be addressed going forward.

Ontario’s response below includes first our continued concern on:

- a. Service capacity concept;
- b. Elements; and
- c. Net debt.

Other areas of concern of Ontario follow.

### **Service capacity concept**

PSAB in the Exposure Draft indicates service capacity is the measure of a public sector entity's capacity or ability to serve the public. PSAB acknowledges service capacity is not strictly financial. Therefore, financial reporting cannot measure service capacity. PSAB has not indicated a compelling rationale for this abstract concept. It has not indicated how service capacity is to be measured other than indicating some factors for consideration. It has not indicated an objective measure of measuring service capacity that would provide any value. "Net debt" is the current indicator of a public sector entities future revenue requirements and its ability to finance its activities and meet its liabilities. It is unclear the purpose of the concept of service capacity, how it is appropriate for financial reporting as it is a subjective concept beyond financial elements, and how such a concept is to be measured and reported. Ontario considers the concept to not be appropriate for financial reporting and to be of little value in addressing accountability.

### **Elements**

Ontario continues to have concerns with the proposal to limit elements to assets, liabilities, revenues and expenses; and how some of these elements are being defined.

Ontario continues to disagree with not including equity/net assets as an element. PSAB seems to equate equity with ownership interest. Ownership interest which while a component is not the sole source of equity. Currently there are two components of equity/net assets in PSAS, surplus/deficit and remeasurement gains/losses. PSAB is proposing to add a third component "accumulated other". PSAS currently allows certain transactions to be recorded directly to equity/net assets without flowing through the statement of operation. 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 that are not appropriate to record through the annual deficit or surplus thus allowing for greater transparency, structure and discipline.

Ontario also continues to have concerns with the introduction of components of equity/net assets and as addressed in paragraph 6.25 of the Exposure Draft, the Board requiring part of financial performance to be presented outside of surplus or deficit. PSAB indicates this better contributes to accountability. Objective 4 indicates accountability results when actual financial performance is presented and compared to budget. Flowing through performance measures not through the statement of operations and not presenting a comparative budget amounts provides no accountability.

It is not “aspirational”, instead it is creating confusion as to the financial results of the public sector entity. It is hiding financial results outside the surplus and deficit. It is adding to complexity of financial performance that will not be understood by the public and legislators.

Additionally, Ontario has concerns regarding the rigid definitions of revenue and expense. The change in assets and liabilities is the simplest way to determine and define revenue and expense, but consideration must be given as to whether the annual deficit or surplus is appropriately capturing the activities and operations relating to the current period. PSAB, in its Reporting Model Exposure Draft, indicates that all statements in the financial reporting of an entity are of equal importance and prominence. Basing the definition of revenue and expense on changes in assets and liabilities places prominence on the statement of financial position. Consideration should be given as to what is a revenue or expense for public sector entities considering their long-term nature and the annual budget and accountability process. The appropriate framework must balance the asset and liability definition with the ability to ensure revenue and expense are reported in the period for which they relate. This can be accomplished either by changing the definition of revenues and expenses or by adding a deferred element to accommodate matching the item to the appropriate time period. Keeping rigid revenue and expense definitions and not introducing a deferral element limits the creation of standards, and the ability of PSAB to address challenges associated with reporting revenues and expenses in the period they relate to. It does not address the concerns of the Joint Working Group. It is inconsistent with the position recently taken by IPSASB with regards to accounting for deferrals.

### **Net debt**

Ontario continues to disagree with the removal of the net debt indicator from Objective 2. The purpose of the net debt indicator as defined in PS 1100.29 is to highlight the financial affordability of future government service provisions. A net debt position “represents a “lien” on the ability of the government to apply financial resources and future revenues to provide services.” In the absence of the net debt indicator, there is no indication for users of how existing funds can be used to cover off existing liabilities. The net debt indicator is a key concept in the PSA Handbook which is now well accepted. It is meant to demonstrate the future financial needs of the entity based on its past events and transactions. This indicator while perhaps not well understood by government organizations is applicable for all public sector entities.

PSAB is proposing to change the calculation of net debt and to redefine the term. The Board proposes that the net debt indicator continue to exist as part of the financial statements in the statement of net financial assets or net financial liabilities, but no longer be outlined in Objective 2. This decreases the ability of individuals interpreting the standard to rely on the conceptual framework to get a better understanding of this indicator and is contrary to the ultimate objective of the conceptual framework. Maintaining the current calculation of net debt as financial assets less liabilities allows for the continuing inclusion of the net debt indicator on the statement of financial position.

Inclusion of the net debt indicator on the statement of financial position highlights this measure as compared to including the information on a separate statement adequately reflecting its importance in the Canadian context. Furthermore, consistent with the concerns raised by the PSA Discussion

Group, having the net debt indicator on the statement of financial position and being able to see it in relation to non-financial assets provides valuable accountability information.

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Ontario has additional concerns regarding the conceptual framework as proposed. The matters of concern are separated between those which are new and those which were previously communicated in relation to the prior Statement of Concepts but are still of concern.

**Additional concerns**

<p>Prospective adoption</p>	<p>The Exposure Draft is proposing prospective adoption immediately on inclusion of the revised conceptual framework into the Handbook. PSAB indicates it is not expected the changes to the conceptual framework will have an immediate effect on most reporting entities.</p> <p>It is not indicated for which entities changes are expected and the nature of these changes. It is also unclear why the conceptual framework changes would not 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 - for example Chapter 10 in relation to presentation concepts. It is not clear why such changes should be implemented part way through a fiscal year by a public sector entity.</p> <p>PSAB should consider adoption of these conceptual framework changes in conjunction with the reporting model changes.</p>
<p>Estimation uncertainty</p>	<p>Paragraph 9.21 of the proposed conceptual framework states that for estimation uncertainty, when a particular amount within a range of possible amounts appears to be a better estimate than any other, that amount would be used. This guidance could be problematic for example in relation to legal claims. There may be a wide range of potential results with the most likely result still being only a small percentage. Stating the highest percentage outcome is to be used is not appropriate and may result in estimations that are not reflective of the weighted average of possible outcomes.</p>
<p>Compliance by GNFPOs</p>	<p>BC.16 indicates the conceptual framework is to apply to all public sector entities but GNFPOs following the PS 4200 Series do not need to adopt the changes. The conceptual framework was developed for all public sector entities and many of the changes PSAB is proposing are directed at appeasing the demands of GNFPOs. It is not clear why all GNFPOs would not follow the conceptual framework. This only further divides the reporting of some GNFPOs versus other public sector entities.</p>
<p>Joint Working Group (JWG)</p>	<p>BC.13 indicates the proposals in the conceptual framework considered the Joint Working Group's recommendations. It is unclear how the proposed conceptual framework addresses the JWG's concerns with the existing financial instrument and government transfer standards, primary issues of the JWG.</p>



Rate regulated accounting	BC8.42 indicates PSAB is aware that some stakeholders have issues with rate-regulated accounting and that they are monitoring the IASB's project. It is unclear why PSAB is not performing their own review but rather relying on a private sector standard setters review which includes little Canadian public sector stakeholder involvement.
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Matters previously communicated to PSAB that are still of concern to Ontario are as follows.

### Carryforward concerns

Inherent Public Accountability	Per paragraph 2.06, accountability to the public is a defining characteristic of public sector entities. The discussion on the government's ability to obtain and use public resources, powers, rights, and responsibilities, and the capacity to issue debt, from paragraphs 2.17 to 2.26, are relevant considerations for why the government has an inherent public accountability, however, these sections should be streamlined and more concise, as they do not provide additional value.
PSAS Adoption is a Voluntary Choice by Governments	Per chapter 2, the proposed conceptual framework acknowledges, as a characteristic of public sector entities, the unique constitutional structure of Canada, including the sovereignty of the Canadian governments. The key component missing from this description is that the adoption of PSAS is a voluntary choice that the respective governments have undertaken. This aspect should be included in the conceptual framework.
Multiple Interest Objectives	Under the public sector entities characteristic of having multiple public interest objectives, Ontario does not agree with paragraph 2.55(d) which includes peace, order, and good government as one of these objectives. Peace, order and good government is not relevant from a financial accountability and reporting perspective. It is more relevant from a policy and program perspective and thus should be excluded from the outlined public interest objectives. This deviates from our expectation of the conceptual framework to focus primarily on financial accountability and reporting.
Faithful Representation	Ontario does not agree that faithful representation should replace reliability as a qualitative characteristic of financial statement information in Chapter 7. Reliability is a key component of the auditor's ability to comment on whether the statements 'fairly present' the transactions and financial position of the government.  Instead faithful representation should be included as an additional characteristic. Different from reliability, faithful representation addresses the concept of substance over form, which is crucial in financial statements, in ensuring that the substance, rather than the legal form is communicated, where these two diverge in practice.
Economic Phenomena	The glossary includes a definition of economic phenomena. This term is only used twice in the proposed conceptual framework (paragraph 8.01 and 8.02)

	and its definition is included in paragraph 8.02. Consideration should be given if defining economic phenomena adds value.
Trade-off between Presentation Parameters and Cost-benefit	Chapter 10 of the proposed conceptual framework acknowledges that there are trade-offs between presentation concepts, for example to balance between clear and relevant information and consistent and comparable information. However, Ontario noted that there is also a trade-off between these various presentation parameters and cost-benefit. Although cost-benefit is a qualitative consideration as described in Chapter 7, Ontario believes it should be mentioned in Chapter 10 specifically for presentation as well.
Presentation Objective	Ontario generally supports the presentation objective as described in Chapter 10, except that it states that the objective of the financial statements is to “maximize the accountability value”. Neither the terms “accountability” nor “maximize the accountability value” are defined throughout the proposed conceptual framework. The assessment of whether information is presented in a manner that maximizes the accountability value is likely subjective. PSAB should review the need for including the phrase “maximizes the accountability value” or provide guidance on meeting this requirement.

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.

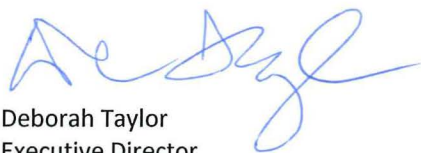
The Fund also has an issue with this definition criteria. Because of the unique nature of the Fund, it is difficult to find a true private sector counterpart. The Fund has two products that it offers to First Nations, which are capacity development funding and for those that qualify, a Credit Enhancement 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 Conceptual Framework 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 Conceptual Framework Exposure Draft.

The UofA overall agrees with the proposed concepts in the new Conceptual Framework Exposure Draft. The UofA is in agreement with this exposure draft for the following reasons:

1. The framework is laid out in a consistent and logical manner. It is easy to follow and intuitively it makes sense.
2. The new framework should prove useful for new entities that need to adopt Public Sector Accounting Standards (PSAS). The UofA would have found the additional context helpful when it adopted PSAS back in 2012.
3. The proposed framework allows for a bit more flexibility in allowing users of PSAS to highlight sets of transactions that would be more relevant to them and the users of their financial statements.
4. The new framework addresses some minor inconsistencies between the current framework and existing standards.
5. Additional clarity is provided on GAAP hierarchy as outlined in the basis for conclusion paragraphs BC1.12 – BC1.14.

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](mailto:bboytang@ualberta.ca)

cc. Martin Coutts, Associate Vice-President, Finance, Procurement and Planning



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 – Conceptual Framework for Financial Reporting in the Public Sector***

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.

We recognize PSAB has made significant efforts to find an acceptable compromise for all stakeholders, but we also would like PSAB to consider in its decision-making that the differences in financial reporting needs and implications across its stakeholder groups are valid and significant.

As outlined in the appendix, we encourage PSAB to further 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 conceptual framework and have documented only our more significant areas of concern in the following appendix.

Sincerely,

A handwritten signature in black ink that reads "Janice Leahy". The signature is written in a cursive, flowing style.

Janice Leahy, CPA, CA, CIA  
Acting Auditor General



## APPENDIX

### *Question : Do you agree with the concepts in the proposed Conceptual Framework?*

As mentioned in the covering letter we agree with many other areas of the proposed conceptual framework and have documented only our areas of concern in this appendix.

#### *Chapter 6: Reporting Financial Position*

##### *Net Debt Indicator*

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.

### *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 has 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.

### *Disclosing Risks and Uncertainties*

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.

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 added to paragraph 6.37 for risks that PSAB believes might occur that an entity should consider disclosing, as well as any impact the non-disclosure of material risks would have on the audit opinion. Doing so would also mitigate the risk of over-disclosure in the notes, preserving clarity and understandability for users, preserving the principles outlined in Chapter 7.

### *Rate-Regulated Assets and Liabilities*

We noted in the Basis for Conclusions for Chapter 8 that PSAB concluded that rate-regulatory accounting was a “standards-level issue that requires significant research and stakeholder consultation before conclusions for the Canadian public sector can be reached”. We were disappointed in this conclusion, as we feel that rate-regulatory accounting is an important issue affecting numerous public sector entities, specifically regarding deferrals. We believe that the exposure drafts are an opportunity for PSAB to provide guidance in complex areas affecting the public sector and had hoped to see more guidance and support from PSAB on these issues.

*Definition of non-financial 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. Although we feel the current impact to non-financial liabilities for New Brunswick will be not be significant, we share concerns that the current 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 and applicability between jurisdictions.

*Chapter 9: Recognition and Measurement in Financial Statements**The Measurement Attribute*

We noted that paragraph 9.36 states circumstances in which another measurement attribute is better served for an asset or liability, "PSAB may require a measurement attribute other than historical cost". We believe this becomes problematic in instances where there is no applicable PSAS standard and as such, another framework is applied as a proxy, as this guidance seems to indicate that PSAB has authority over any deviation from historical cost. We would have liked to see additional guidance from PSAB in these instances where another framework is applied.



June 30, 2021

Michael Puskaric  
Director  
Public Sector Accounting Board  
277 Wellington Street West  
Toronto, ON M5V 3H2  
[info@psabcanada.ca](mailto: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

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Dear Mr. Puskaric:

**SUBJECT: Exposure Draft - The Conceptual Framework for Financial Reporting in the Public Sector (January 2021)**

Grant Thornton LLP and Raymond Chabot Grant Thornton LLP (hereinafter “we”) would like to thank you for the opportunity to provide comments on the Public Sector Accounting Board’s (hereinafter the “PSAB”) Exposure Draft entitled The Conceptual Framework for Financial Reporting in the Public Sector (hereinafter the “ED”). Overall, we agree with the intention of the ED and have the following responses to the general question asked in the ED below:

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

- **Paragraph 1.07 A Conceptual Framework** – This paragraph states that a conceptual framework “is not part of GAAP”. We believe that the wording should be revised to say that it is not “a standard”. This would be similar to IFRS which we suggest is a better explanation. We also think it would be useful to convey, similar to IPSAS, that the Conceptual Framework can provide guidance in dealing with financial reporting issues not dealt with by PSAS.
- **Paragraph 2.33 Importance of budget** – This paragraph states that all public sector entities require legislative, council or board approval. We would like to make the Board aware, that while this occurs in a small minority of public sector entities, there are government organizations that do not budget for all of their activities, nor do they obtain formal board approval of all of their activities. For example, we are familiar with organizations that budget only for individual programs, but they do not budget for their general operations.
- **Paragraphs 6.32-6.35 Disclosing Non-Compliance with Financial Authorities** – We believe the term “financial authorities” needs an example or definition to better convey the intent of this section. At a minimum, the PSAB should include the statement in BC6.23 that it is considered solely in terms of “non-compliance with financial authorities in relation to revenue, borrowing, investing, expense and expenditure limits”. We think this important especially since it is unclear 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 this appears to go beyond what would even be considered within this standard in the context of auditing financial statements. Please also see our comments related to this item in our response to the ED on PS 1202.

- **Paragraphs 6.36-6.40 *Disclosing risks and uncertainties*** – We believe that the scope of this objective should be narrowed. The Basis for Conclusions (BC) paragraph 6.31 states that “*PSAB does not intend to add requirements in addition to those currently in the PSA Handbook*”; we think this should be more clearly stated within the Conceptual Framework itself. We recommend that this Section state that this objective does require disclosure beyond the specific requirements within each Standard of the PSAS Handbook.
- **Paragraphs 8.09 and 8.16 *Asset and liability definitions*** – In BC8.47-48, the PSAB explains that the asset and liability definitions differ from IPSASB’s and how. Given the Board’s international strategy shouldn’t these discrepancies be eliminated now? Otherwise, applying the new revisions to Section PS 1150 *Generally Accepted Accounting Principles* that require public sector entities to look to IPSAS first could result in entities adopting incorrect policies that are not consistent with the Conceptual Framework due to these minor differences.
- **Paragraph 9.10 footnote 23** – We would suggest that the Board clarify its intent related to footnote 23. We could not understand what it is intending to convey with this sentence. In fact, we would suggest it include a clearer sentence within 9.10, if it is felt it is needed, and delete the footnote in its entirety.
- **Paragraph 9.40 *Going concern*** - This paragraph states “*If the going concern assumption becomes inappropriate, a change may occur in the expectation of realization of an asset or settlement of a liability. As a result, the measurement attribute for a particular asset or liability may need to be reconsidered.*” We believe the Board should add some commentary related to the restructuring standard here as that standard specifically does not require an adjustment to measurement (for example, that it does not trigger a change in measurement for a transferor).
- **Paragraph 10.07 *Presentation objective*** – We suggest that the PSAB define the word “fair presentation”.
- **Paragraph 10.25 *Entity specific information – The core requirements and supplemental information*** – We strongly disagree with the statement in this paragraph. As currently worded, it appears that PSAB is endorsing disclosures/accounting that are not GAAP as long they are legislated and disclosed. We do not believe that this should be within the Conceptual Framework. Non-GAAP accounting and disclosures would be assessed by the auditor to assess if the financial statements are materially misstated. We believe the paragraphs in Chapter 10 that state that note disclosure is not a substitute for inappropriate accounting are sufficient to deal with this issue and whether inappropriate accounting is legislated or not should not make a difference.

Also, this paragraph also seems to include a disclosure requirement which conflicts with the concepts that the Conceptual Framework is not a standard.

- **Extensive use of footnotes** - We note that the ED makes extensive use of footnotes (33 in total). 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 as many footnotes as possible and integrate the relevant content that is crucial to understanding a concept within the Framework itself.

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: The Conceptual Framework for Financial Reporting in the Public Sector**

Dear Mr. Puskaric,

Thank you for the opportunity to provide comments on The Conceptual Framework for Financial Reporting in the Public Sector. Our comments are below.

**Questions**

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

We have several concerns that we feel need to be addressed before PSAB finalizes the Conceptual Framework. These include implications of the fair value reporting model for government, standards that are inconsistent with the framework, and our alignment with IPSASB.

We feel as though the Conceptual Framework is taking more of a fair value approach than a traditional government, non-profit accountability framework. The inclusion of fair values is certainly beneficial to users, if understood in the appropriate context, but is at risk of impacting public policy decisions. For example, significant in-year unrealized losses can lead people to believe a program is unsustainable, even if these losses may never be realized.

Although, in general, we agree with the asset and liability definitions outlined in the Conceptual Framework, we are concerned that by not broadening these to include the potential for revenue deferrals that we may ultimately be tying our hands for future developments and improvements, particularly with regards to matching cost recoveries to the expenses those recoveries were meant to fund. We believe that allowing revenue deferrals warrants additional consideration and is one of the main accountability measures in non-profit accounting to evaluate stewardship.

In addition, it is noted that PSAB will not automatically change existing standards because of changes to the Conceptual Framework. If an existing standard works well in practice, the Board will not propose an amendment to that standard simply because of an inconsistency with the revised framework. We feel as though this could be problematic, especially if significant differences remain that are not reconciled in the near term. For example, this could weaken the overall effectiveness and intent of the Conceptual Framework. As a result, we would feel more comfortable if PSAB reviewed any significant discrepancies that are identified and potentially make amendments to these standards through an omnibus ITC.

We are also concerned that there may be significant differences between how the elements are defined in IPSASB and PSAB. Since we are basing our future standards on IPSASB, we may want to ensure that these elements are aligned.

Below are more specific comments we have about the proposed conceptual framework:

Paragraph 1.04

We agree that the merits of proposed concepts and standards should be assessed from a neutral position and that the primary justification for concepts and standards should be based on improving accountability. However, if possible impact on behaviour is not considered, we don't believe that public interest is served. Accounting should not drive behaviours that are in the public interest.

In the example of measuring derivatives at fair value on the Statement of Financial Position, which introduces a significant amount of artificial volatility to net debt, we have heard from the debt financing community that this measurement practice may reduce their use of foreign exchange hedges for risk mitigation activities. This might drive some jurisdictions to legislate their accounting away from the Financial Instruments standard. It might also push/force some jurisdictions out of the foreign debt markets and more into the domestic market, which could impact the access to debt financing for smaller debtors. The reduction in these effective risk mitigation activities would be attributed to the introduction of accounting for transactions in a manner that reflects their form rather than their economic substance. Financial statements would reflect risks and benefits that are unlikely to be realized, especially in cases where a highly effective hedge is in place and held to maturity. We are in favour of obtaining the highest quality of information for accountability and stewardship purposes but not at the expense of affecting prudent, reasonable risk management decisions.

We truly believe that due to the severity of this impact, PSAB should reconsider their view of PS 3450. A solution could include reporting derivatives at fair market value but classified as non-financial assets or liabilities. In the example of a foreign exchange derivative, this reclassification would only have to apply to the non-forex piece of the fair value calculation because the debt would get adjusted for foreign exchange under the proposed standard. The longevity of these financial instruments and management's intentions to hold them until maturity supports the fact that the market value of these assets will not be used to discharge existing financial liabilities or spent on future operations and will not be used in the normal course of operations, unless sold or held for sale. This concept is not new to non-financial assets under PSAS. For example, tangible capital assets are considered a non-financial asset because it is intended that the asset will never be sold or disposed of to extinguish financial liabilities. It should only be reclassified to financial assets if intentions change. If effective derivatives held to maturity could be classified as non-financial assets/liabilities, then the artificial volatility in the Statement of Net Debt would be removed and that statement would be more useful and easier to understand. This thought process would also be in line with the Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202 (the decision tree on page 16 under Introducing "financial instrument assets" and "financial instrument liabilities").

Paragraph 3.12

We agree that public sector financial reports must include financial information that is clear and understandable and that financial reports should neither exclude nor simplify complex transactions so that their substance is misleading. The primary users of PSAS financial statements are the public and its

elected or appointed representatives compared to IFRS and ASPE primary users being investors, lenders, and other creditors who must rely on general purpose financial reports for much of the financial information they need. Since the public may not have access to intermediaries, such as investment analysts, to help them interpret financial reports, understandability is a key characteristic in public sector financial reporting. Similar to comments above relating to Paragraph 1.04, introducing volatility to net debt as a result of economic conditions outside of a public entity's control and that will almost never be realized does not help in attaining understandability for the general population, and does not faithfully represent the substance of the transaction or the service capacity of the government entity. Keeping that kind of volatility out of the net debt indicator, similar to segregating remeasurement gains and losses from annual surplus, would provide a better evaluation of accountability and stewardship. The information is still valuable to users, just not as understandable in the proposed presentation. This would also be in line with Paragraph 3.15, "The usefulness of financial information is maximized for accountability purposes when it is understandable to the public and its elected or appointed representatives."

#### Paragraph 4.08 (h)

If financial statements do not fully capture important changes in the public sector environment, such as financial crises, natural disasters, and health emergencies, PSAB should consider providing guidance on the additional context that may be required to explain these important changes and their implications as well as when to include such context. Certainly, note disclosure would always be an option, but PSAB should also consider whether reporting significant extraordinary events separately would be suitable. In the example of the COVID-19 pandemic, varying levels of information was disclosed by public sector entities, which made it difficult for users to understand the true financial impact.

#### Paragraph 5.24 and 5.25

We question whether Paragraph 5.25 (b) contradicts the last line in Paragraph 5.24. 5.25 (b) states that financial statement information can be expressed in terms of the Canadian dollar adjusted to take into account changes in purchasing power. However, 5.24 states that "No adjustments are made based on the changes in the general purchasing power of the Canadian dollar."

We agree that measurements using money adjusted for changes in general purchasing power may be appropriate in jurisdictions where inflation or deflation is a significant issue, and that the relative level of inflation in Canada supports the choice to use a unit of measure that does not take into account changes in purchasing power.

#### Paragraph 9.15

We believe the definition of "expected" as described in this paragraph is too broad. The realization threshold is a factor for recognition in financial statements, but taken literally and on its own, could allow for a liberal interpretation of recognition of assets. For example, an entity has a contaminated site for which they are responsible to clean up and have booked a remediation expense in their financial statements. This remediation project is eligible for federal funding, under a signed agreement, and thus since the entity is obligated to remediate their site, the expectation of fulfilling that obligation and obtaining the funding would be considered high. Since the risk of not remediating and not receiving the funding would be considered low, this earlier recognition of the asset would allow for a more accurate picture of the entity's net debt position (true responsibility). However, this early asset recognition may contradict the recognition criteria in PS 3410 if eligible expenditures must be incurred first as well as the

expected recoveries wording in PS 3260. Therefore, we believe that the former Paragraph PS 1000.56 is still needed to make a clearer link between “expected” and the recognition criteria.

Overall, we appreciate the work and effort that PSAB has put into developing these exposure drafts. We are, however, concerned with the potential implications that these issues may have on government and public policy going forward.

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 “The Conceptual Framework for Financial Reporting in the Public Sector”** 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.

- Inherent public accountability is the overriding **characteristic of public sector entities**. PSAB recognized that some previously recognized characteristics do not apply to all public sector entities (e.g. a monopolistic environment) and added longevity of the public sector as a characteristic.
  - **CAUBO Members agree with the added characteristic of longevity of the public sector.**
  
- The purpose of a public sector entity is to serve the public, therefore accountability is the primary **objective of financial reporting**. PSAB introduced the concept of *service capacity* to explain that accountability includes the entity's financial condition, financial performance and the extent to which the entity performed in accordance with its financial authorities and plan.
  - **CAUBO Members agree with the revised application of the service capacity concept.**
  
- The four **financial statement foundations** relate to the basic decisions standard setters assess, including Reporting Entity, Control, Unit of Measure and Basis of Accounting. The addition of *Control* as a foundation was given support but was redefined to limit contradictions identified with PS 1300, Government Reporting Entity. *Service Capacity* has been removed as a foundation.
  - **CAUBO Members agree that it is appropriate to both add *Control* and remove *Service Capacity* as a financial statement foundation.**
  
- The six **financial statement objectives** establish the information to be included in financial statements to meet the overall accountability objective. The objective description regarding *Report Financial Position* was refined for clarity.
  - **CAUBO Members agree that disclosure of certain financial risks provides relevant information to financial statement users in the context of assessing the financial results of the entity.**
    - For example, risks associated with the holding of financial instruments such as credit risk, liquidity risk and market risk provides useful information to users on the historical, and potential future performance, of investment.
  - However, financial statements do not provide sufficient information regarding an organization's operating environment, its risk management framework, or its ability to monitor and adapt to changing conditions to enable the reader to make an overall risk assessment of an entity.
  - If the objectives of financial statements are to include information to describe the risks and uncertainties that could affect an entity's financial position and the entity's management of them, then the implication is that the accounting standards should provide a framework for determining if those disclosures are adequate and for assessing management's ability to manage risk.
  - As such, **CAUBO Members do not agree that disclosing risks and uncertainties should be an objective of financial statements.**
  
  - **CAUBO Members agree that financial information relevant to assess non-compliance with financial authorities that is material to users of financial statements should be disclosed**
  - However, financial statements do not provide sufficient information to assess all financial authorities that have jurisdiction over an organization or the compliance regime that the organization maintains.
  - If the objectives of financial statements are to include disclosure of non-compliance with financial authorities, it follows that accounting standards should provide a framework for assessing and reporting entity's compliance with financial authorities in the financial statements.

- Therefore, **CAUBO Members do not agree that disclosure of non-compliance with financial authorities should be an objective of financial statements.**
  
- **Qualitative characteristics of financial statement information** are the attributes that make information useful to users for accountability purposes. *Materiality* and *Prudence* were proposed as additional considerations to the existing benefit vs cost consideration to achieving an appropriate balance among the six qualitative characteristics – timeliness, relevance, understandability, comparability, verifiability, and faithful representation.
  - **CAUBO Members agree that it is appropriate to include materiality and prudence as additional considerations to the existing benefit vs cost consideration.**
  
- **Financial statement elements** are the basic building blocks from which financial statements are constructed – assets, liabilities, revenues and expenses. Definitions were modified for all elements and all elements are equal in importance. The elements of financial statements are defined in terms of *economic resources*, *economic obligations*, and changes in them. Deferred inflows and outflows that do not meet the definition of assets or liabilities would not be recognized in the financial statements. PSAB added definitions for *economic resources* and *economic obligations*, consistent with PS 3200, Liabilities and PS 3210, Assets.
  - **CAUBO Members agree with the Financial Statement Elements. In addition, Members agree with enabling future standards to allow certain revenues or expenses to be recognized directly into a component of net assets or net liabilities to address unique transactions and balances such as endowments.**
  
- **Recognition** is the inclusion of an item, transaction or event within one of more financial statements, but does not mean disclosure in the notes to the financial statements. PSAB enhanced the definition of *Derecognition* as the inverse of the general recognition criteria which allows it to stand alone.
  - **CAUBO Members agree with the enhanced definition of *Derecognition*.**
  
- **Exclusions** from recognition in financial statements (e.g. inherited natural resources, inherited crown lands, all art & historical treasures, and inherited & developed intangibles) are proposed to be moved to the revised *Financial Statement Presentation Standard (PS 1202)* until subsequent consideration as they are standards level decisions and not conceptually-based.
  - **CAUBO Members agree with this proposed change.**
  
- PSAB is confirming historical cost as the primary **measurement concept**, but recognizes that other measurement attributes might be required at the standards level (when necessary) to meet the accountability objective. Based on the feedback received on the Statement of Concepts, improvements were made to the going concern discussion to reflect the Canadian public sector environment, such as considering the longevity of governments.
  - **CAUBO Members agree with this proposed change.**
  
- PSAB believes that general **presentation concepts** and guidance are required to increase the understandability and cohesiveness of the information presented thus increasing the accountability value.

- **CAUBO Members agree with the presentation concepts presented. However, as indicated in the response to the Financial Statement presentation concepts, Members do not agree with the proposed budget requirements as the effort required for this change will exceed the benefit.**

CAUBO Members understand that PSAB will start using the revised Conceptual Framework once it is issued. The revised concepts will guide the Board as it develops or amends standards. Entities would be required to use the revised Conceptual Framework prospectively when no standard specifically applies to a particular economic resource, economic obligation, transaction or other event. New presentation concepts may lead entities to review the nature, extent and structure of their financial statement disclosures. The PSA Handbook will require a number of consequential amendments which are editorial in nature.

**Overall, CAUBO Members support the proposed Conceptual Framework. A sound conceptual framework upon which future standards will be created may result in improved comparability for CAUBO members that follow PSAS, while it is not expected that the changes will impact the comparability of financial reporting across all member institutions.**

Moreover, 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



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 – THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING IN THE PUBLIC SECTOR– January 2021

Thank you for providing us with the opportunity to comment.

As with our response to the 2019 Statement of Concepts, our comments are based on whether the proposals improve accountability, transparency and decision-making for the users of the financial statements.

While we were pleased to note that a number of proposals have been revised to better meet the goals of accountability and transparency in the public sector, there remains a number of issues that PSAB needs to address.

#### **“Accumulated Other” Category**

We do not support the proposed “accumulated other” category. As we stated in our response to the 2019 Statement of Concepts, this approach may open the door to an easy way for governments and other public sector entities to hide undesirable transactions from the annual financial performance. To demonstrate accountability for the resources entrusted to them, all public sector entities must produce financial reports that show how they have used those resources in any given financial period. A model that allows entities to bypass the annual surplus or deficit by directly recognizing certain revenues or expenses in net assets or net liabilities does not achieve the accountability objective that is the basis of financial reporting in the public sector.

While we acknowledge that the exposure draft states that it is PSAB’s current intention to restrict the use of this category, any failure to remove this category from the conceptual framework leaves it open to potential misuse in the future, ultimately compromising the transparency and the faithful representation of an entity's annual financial performance.

#### **Net Debt**

Net debt is a critical indicator for senior governments. The attention to net debt in senior government financial statements has been substantial and more so in recent years in

light of the deficits many senior governments have been experiencing. Key financial statement users, such as analysts, markets and the media have developed an understanding of net debt and its implications. Net debt, and related terms, such as net debt to GDP, have become part of the accepted measures of debt levels in Canada. For example, in February of this year, The Fraser Institute published a [study](#) on the debt burden in Canada that focused on net debt levels across Canada. The proposal to rename this key indicator will lead to significant confusion, particularly when the name change is accompanied with a relocation to a different area of the financial statements.

We are supportive of the exclusion of non-financial liabilities from the calculation of net debt. For senior governments in Canada, the most common non-financial liability is deferred capital contributions. As we noted in our previous 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.

As governments face growing debt burdens as a result of the COVID-19 pandemic, it is even more important that users of government financial statements have common and well-understood terminology, including net debt, to foster discussions about how the government plans to face these new realities.

### **Faithful Representation**

Faithful representation is an important characteristic that is common to many conceptual frameworks. Paragraph 7.21 of the exposure draft states that faithful representation of estimates can be achieved if:

- (a) the amount is described clearly and accurately as being an estimate;
- (b) the nature and limitations of the estimating process are explained; and
- (c) no errors have been made in selecting and applying an appropriate process for developing the estimate.

We noted that the IFRS Conceptual Framework for Financial Reporting is similar but has one very important difference. The IFRS Conceptual Framework explicitly recognizes that in some cases, the level of measurement uncertainty is so high that information provided by a measurement basis might not provide a sufficiently faithful representation (IFRS Conceptual Framework for Financial Reporting, paragraph 6.60). This is a critical limitation and it should not be omitted from PSAB's conceptual framework. In our view, faithfully representing a transaction or event in the financial statements is no less valuable in the public sector than it is in the private sector. Disclosure of the extent of the estimation uncertainty in the notes to the financial statements is not sufficient to mitigate the impact of unreliable information. Therefore, we strongly encourage PSAB to recognize the importance of this limitation in PSAB's conceptual framework and incorporate this guidance into the conceptual framework to safeguard the reliability and relevance of the financial statements.

Mr. Michael Puskaric

Page 3

June 30, 2021

We also noted that 7.21(c) states that an appropriate process for developing an estimate is required. We encourage PSAB to describe the characteristics of an appropriate process.

**Natural resources, developed and inherited intangibles and works of art and historic treasures**

We do not support the proposal to remove the existing recognition prohibition for natural resources, inherited intangibles and works of art and historic treasures from the conceptual framework. Natural resources, such as forests and provincial parks, in many cases do not have an established market value. Any attempt to measure such assets would produce a vast range of potential values. Such ranges would not only be too wide to provide meaningful information to financial statement users, they would also be more susceptible to management bias. Any attempt to establish a measurement basis for these assets based on what a third (private sector) party would pay for the resource may not be representative of its value to the public sector, as the private sector would base their valuation on for-profit usage of these assets that may not be within the scope or mandate of the public sector.

Moving the exclusion to the proposed Section 1202, *Financial Statement Presentation*, will only displace and replicate the problem.

Our Office is supportive of PSAB's proposal to require the disclosure of natural resources, inherited intangibles and historic treasures in the financial statements. Further guidance would be helpful in determining the nature and the extent of these disclosures.

**Control**

In our response to the 2019 Statement of Concepts dated March 1, 2019, we encouraged PSAB to clarify the discussion of control to a broader, more principles-based level to avoid any risk of inconsistency or overlap between the concepts outlined in the conceptual framework and the specific requirements of certain standards. We remain concerned that paragraph 5.22 of this exposure draft contradicts the guidance in PS 1300, *Government Reporting Entity*. Paragraph 9 of PS 1300 clearly recognizes that a government's power to exercise control is a persuasive indicator of control. However, paragraph 5.22 of this exposure draft still states that such power would not be considered in determining control until it is invoked. We recommend that PSAB eliminate paragraph 5.22 in its entirety to avoid inconsistency.

Thank you for the opportunity to comment.

Yours truly,



Bonnie Lysyk  
Auditor General of Ontario



**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.

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## 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”?

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## 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

**PSAB Exposure Draft: The Conceptual Framework for Financial Reporting**

We commend PSAB for embarking on this project for the proposed conceptual framework. This was a significant undertaking by PSAB to outline the set of interrelated concepts underlying accounting and financial reporting standards to address matters not specifically dealt within the standards and in the development of future standards.

Our comments to PSAB's specific question are reflected in the attached appendix.

Sincerely,



Dan Stadlwieser  
Controller

Attachment

## **The Conceptual Framework for Financial Reporting in the Public Sector**

### ***Do you agree with the concepts in the proposed conceptual framework?***

#### **Generally agree – but have made some comments below.**

The proposed conceptual framework appropriately outlines the set of interrelated concepts underlying accounting and financial reporting standards. This in turn further addresses matters not specifically dealt within the standards and in the development of future standards.

In Chapter 6, recognizing the difference between financial and non-financial resources along with the difference between financial and non-financial obligations is very important. Given the fact that financial obligations are 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 users in better understanding financial statements. For example, non-financial assets and non-financial liabilities should have no impact on net debt.

We also agree with the recognition exclusions for natural resources/Crown lands that have not been purchased, developed/inherited intangibles, and works of art/historical treasures. Any consideration for potentially recognizing any of these items in the future would require PSAB to do research and to consult with stakeholders for addressing these matters.

While we are in general agreement with the exposure draft, we have identified below some matters for your consideration.

#### **Effective date of the proposed conceptual framework**

Given the exposure draft becomes effective as part of the PSAS Handbook immediately when issued, some time will be needed by the Province to review its financial statement presentation and disclosures to ensure alignment with the concepts of the proposed conceptual framework. Consequently, we recommend that the effective date be delayed until April 1st of the following year of the release of the proposed conceptual framework to ensure an adequate review is conducted.

## **Recognition exclusions**

Currently, the PSAS Handbook sets out exclusions from recognition in financial statements in the conceptual framework. However, these exclusions are proposed to be moved to the financial statement presentation standard within proposed Section PS 1202 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 proposed Section PS 1202 is out of scope for that particular standard as is suggested under PS 1202.002. We also don't entirely agree with the basis of conclusions BC9.31 that moving the recognition exclusions to Section PS 3210 would contradict the purpose of that standard. PS 3210 may yet be a better location given the subject matter is about asset exclusions and not presentation.

## **International Strategy Approach**

Chapter 1, verse 1.06, of the proposed conceptual framework states that PSAB applies the conceptual framework when developing standards. Consequently, the proposed conceptual framework would serve as the foundation for Canadian public sector GAAP. However, given that PSAB recently decided to adapt IPSAS principles when developing future standards as its international strategy, perhaps in Chapter 1 this strategy should be highlighted for context.

## **Hedging**

Reporting financial instruments at fair value for hedging arrangements under PS 3450 does not align with the revised conceptual framework. Hedging is used to offset gains and losses arising from holding financial instruments to maturity and to protect against market risk. The hedging arrangement is not reflected in the financial statements which prevents portraying reliable information to users. It will also bring misleading volatility into the financial statements.

## **Flow-Through Transactions**

Chapter 8 defines elements of the financial statements. In particular 8.23 and 8.25 are very specific in how revenues and expenses are directly linked to changes in the amounts of assets and liabilities in the accounting period. However, there is no specific commentary to address flow-through arrangements where one government may act purely as a mere cash conduit of funds to another organization outside the government reporting entity on behalf say of a more senior government - for example, when there is no administrative nor any other type of involvement by the government acting as this conduit outside the receipt and payment of funds.

June 30, 2021

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

Dear Michael Puskaric:

I am writing my response to the Exposure Draft “The Conceptual Framework for Financial Reporting in the Public Sector.” With respect to your question “do you agree with the concepts in the proposed Conceptual Framework?” I am providing my comments on specific areas where I do not agree with the concepts expressed. I have organized these comments by paragraph number.

As an overarching comment though, I feel I should express that, in my opinion, the document is too long to be most effective. I fear it will not achieve the aims you have established because of its very length. Further, though it seems to evoke the user oriented language of decision usefulness, it is very short on information regarding the specific named needs of the named users - the general public and our elected/appointed representatives. I am left wondering how were users sought out and communicated with, and what did they communicate back to PSAB in terms of their user needs?

Had the document reflected in a more thorough manner the documented needs of the users, it would serve as a more convincing argument for establishing these accounting principles. Without more discussion of how you have developed your understanding of user needs, I remain unconvinced that this is a user-oriented approach. For instance, I can think of many of the users I worked with as a member of a provincial auditor general’s office for over 20 years, both legislators and civil servants. I cannot imagine that the language and many of the concepts in the document truly flow from a genuine articulation of observed user needs.

**1.07** I disagree with the notion that the conceptual framework is “not part of GAAP.” In my view, the conceptual framework should be a series of principles that are definitely part of GAAP. I see your argument that PSAB has noted the framework is something different (i.e. core concepts as per 1.11), from which GAAP is developed. But, in my view, the “principles” inherent in the framework are by definition “accounting principles.” What else could they be? In fact, paragraph **1.10** notes that the “conceptual framework represents a deliberate choice of a *principles-based* (*emphasis mine*) standard setting approach.” So, it seems, the conceptual framework is principles-based, but it

contains no accounting principles? It's a framework without principles: that seems patently odd? To not call the conceptual framework part of GAAP seems unnecessarily confusing. As an accountant, an academic who teaches public sector accounting to fourth year students at a Canadian university, I think I would have a difficult time explaining to my students, relatively knowledgeable users who are training as accountants, how this conceptual framework was not part of GAAP.

**2.11** I recommend at the top of this list you should start the list with something like “their inherent responsibilities as citizens of a functioning democracy.” I think an over-arching notion like this is important to set the stage for the more specific items listed in (a) through (e). With the much-discussed decline in democratic participation in Canada, I think it is important that we, as accountants, use our privileged position to reinforce this basic principle of civics education. Citizens have both rights and responsibilities in a well-functioning democracy. We, as citizens, elect governments at various levels. The responsibility for holding those governments to account is an important one that every citizen should hold. I also think that this list should include some reference to the Parliament or other legislative body. These legislative bodies must approve the budgets of the executive branch, and after the financial results are reported, they have the responsibility to hold the executive to account by reviewing the government’s financial reports in a forum such as a public accounts committee. This discussion is a key part of the accountability equation but it is largely missing from your draft document.

**2.13** In my opinion, this section could benefit from reference to a classic work on public finance, such as Norman Ward’s *The Public Purse*. Otherwise, without the benefit of an established list of principles of public finance, such as that Ward expresses in his definition of two key rules and 8 key principles, the bullet points are simply the PSAB’s definition of “normally,” without the benefit of the insight provided by the discussion of the long struggle for responsible government and accountability for the public purse. It’s kind of like you are saying “normally is what we define ‘normally’ to be.”

**2.22** I suggest you move items (i) and (j) (monetary and fiscal policy) to the top of the list because of their importance with respect to the other powers in the list.

**2.23** I recommend that you revise point (f) on “being good, ongoing and perpetual managers of the economy and the business of government.” First of all, I think this point conflates two important ideals and these need to be separated. Your first ideal, I think, is that government should intervene in the economy to achieve policy ends – e.g. low unemployment, low inflation, high home ownership, etc. That is distinct from the second ideal of running government efficiently, something you are calling the business of government. By the way, I recommend the use of different terms for both of these ideals. I do not like your use of the word “manage” here, though I agree it is widely accepted in political discourse. “Manage” gives way too much credit to the government. Does CPA Canada and PSAB think that anything as complicated as the economy really can be managed? In my opinion, a better word would be “intervene.” Secondly, government may run businesses, such as power utilities or liquor stores. But government is definitely not a business. The language of business has crept into government since the so-called

“reinventing government” movement of the 1990s. I think PSAB should be clear that a government is not a business. The expectation should not be to “manage the business of government” but instead, something like “demonstrating stewardship in the management of its operations.” In my own experience with auditing government operations earlier in my career as a member of an AG’s office, I became concerned when a number of government agencies began talking about “business plans” when actually they should have been talking about “service plans.” They were providing a service without any form of charge. There was no “business” element to it.

**3.03** I realize you answer the “to whom” question posed by the objective on the page that follows. But in terms of forming a stand-alone objective, I believe your document would be improved by something like “. . . *for accountability purposes to the primary users, the public and its elected or appointed representatives.*”

Sincerely,

*S. Brent White*

S. Brent White, PhD, CA  
Associate Professor  
Commerce Department  
Mount Allison University  
(506) 871-6789  
bwhite@mta.ca





**Treasury Board Secretariat**

Office of the Provincial Comptroller

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June 30, 2021

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

Dear Mr. Puskaric:

**Re: PSAB Exposure Draft: The Conceptual Framework for Financial Reporting in the Public Sector**

We would like to thank the Public Sector Accounting Board for the opportunity to comment on the Exposure Draft (ED) on *The Conceptual Framework for Financial Reporting in the Public Sector*.

The Province of Manitoba (POM) agrees with the concepts in the proposed conceptual framework. The proposed concepts will provide a meaningful foundation for preparers, auditors, and standard setters. It will also make public sector financial statements easier to understand for legislators and the general public.

**Authority of the Conceptual Framework:**

The objectives of a conceptual framework are to assist the development of future accounting standards and review existing standards and to aid stakeholders evaluate proposed standards as part of the due process.

The POM agrees with PSAB's view that that the conceptual framework is not part of GAAP. There is nothing in the conceptual framework that overrides any specific standards. Some current standards are inconsistent with the proposed conceptual framework. These inconsistencies should be reviewed as part of PSAB's technical agenda.

**Characteristics of Public Sector Entities:**

The POM agrees that public accountability is the overriding characteristic of public sector entities. The POM also agrees with PSAB's decision of including the longevity of the public sector as a characteristic of public sector entities.

**Service Capacity:**

The POM agrees with PSAB's amendments to acknowledge that it is not appropriate to describe the concept of service capacity solely as a foundation to financial statements. Financial statements cannot report all aspects of a public sector entity's service capacity. Non-financial information such as productivity and capabilities of the labour force cannot be measured and reported in the financial statements.

**Comparing Actual Financial Performance to That Budgeted:**

The ED emphasizes using the original approved budget to compare with actuals. However using an approved budget amended for comparability to the actuals is more appropriate for accountability purposes. A budget should be amended to be comparable in terms of scope and the accounting policies used for the actuals, particularly in the instance of a re-organization.

**Qualitative Characteristics of Financial Statements:**

The POM agrees with the changes in the qualitative characteristics with the existing conceptual framework.

Reliability was too narrow a description and is often confused with verifiability. Faithful representation ensures information in the financial statements provides a complete and accurate description of the economic substance of the economic resource, obligation, transaction or event. Representational faithfulness contributes to the accountability value of the financial information.

The POM agrees with presenting verifiability and timeliness as separate characteristics rather than components of reliability and relevance. Information may be verifiable and timely without being reliable or relevant. Therefore, reliability and timeliness should be identified as separate qualitative characteristics.

**Elements of Financial Statements:**

The POM agrees with the revised definition of revenue and expenses.

Revenue, including a gain, is an increase in assets or a decrease in liabilities in the accounting period that results in an increase in net assets or a decrease in net liabilities. An expense, including a loss, is a decrease in assets or an increase in liabilities in the accounting period that results in a decrease in net assets or an increase in net liabilities.

Revenues not only increase assets or reduce liabilities but they also result in an increase in net assets or a reduction of net liabilities. Further expenses are not only defined as a decrease of assets or an increase of liabilities but there must also be a decrease in net assets or an increase in net liabilities.

Borrowings increase assets as well as increase liabilities but they are not viewed as revenue or an expense. That is because they equally increase the assets and liabilities by the same amount but it has no overall effect on the net assets or net liabilities.

Should PSAB have any comments or questions, please contact me at 204-471-5760 or via e-mail: [Andrea.Saj@gov.mb.ca](mailto: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

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  
The Conceptual Framework for Financial Reporting in the Public Sector**

Dear Mr. Puskaric,

We generally agree with the concepts in the proposed Conceptual Framework, however, we question the need to rename "net debt" to "net financial liabilities".

We believe that 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. To replace the term will require increased education by these users and may result in confusion until such time as everyone learns 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 the term.

Thank you for the opportunity to comment.

Yours truly,



Paul Martin, FCPA, FCA  
Comptroller  
Office of the Comptroller, Finance and Treasury Board



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](mailto: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](mailto: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 The Conceptual Framework**

I would like to thank PSAB for the opportunity to comment on the above-mentioned exposure draft. Overall, we can see how PSAB is striving to align the conceptual framework with the proposed new reporting model. The following outlines our feedback on the proposed Conceptual Framework.

**Departures from the conceptual framework**

One of our biggest concerns with the proposed conceptual framework is in relation to paragraph 1.09, which indicates that PSAB may in the future specify requirements that depart from aspects of the Conceptual Framework. In the basis of conclusions, PSAB indicates that the need might arise because conceptual thinking or the economic environment may have evolved. In our view, once the conceptual framework is in place, we do not believe that PSAB should depart from it in the creation of new standards. If conceptual thinking were to evolve, then it is our view that the conceptual framework itself should be revised to reflect the evolution of the conceptual thinking and economic environment. In our view, the ability to create standards that depart from the conceptual framework undermines the purpose of having a conceptual framework.

**Alignment with IPSASB**

Considering PSAB's recent decision to adapt IPSASB principles when developing future standards, we would support a conceptual framework that aligns more closely with IPSASB to provide more opportunities over time for improved alignment. For example, we would be supportive if assets and liabilities were classified between current and long term rather than between financial and non-financial. We recognize that PSABs current proposal is influenced by the desire to provide information about net debt. We are neutral in respect of this indicator.

We would also support the inclusion of additional elements for Ownership Contributions and Ownership Distributions. When we consider only the 4 elements, it can be difficult to achieve representational faithfulness of transactions with characteristics of ownership contributions or distributions where the transaction itself is not addressed by a primary source of GAAP. In particular, transactions or contractual arrangements involving multiple parties, including government, controlled GBEs along with 3<sup>rd</sup> parties external to government. Building additional elements into the conceptual framework may

alleviate pressure on PSAB to develop primary sources of GAAP as the economic environment evolves over time.

In general, we would be supportive if PSAB took action to better align the conceptual framework with that of IPSASB.

### **Expected vs. Contemplated**

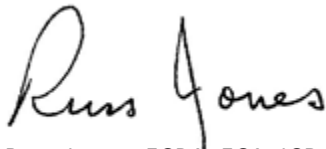
In paragraph 9.16 we recommend removing the word “contemplated” from the description/definition of “expected”. We do not believe they are synonymous. The word contemplated has a double meaning, which could inadvertently broaden the meaning of the term “expected” as it relates to the realization threshold for recognition in the financial statements.

### **Drawing the link between characteristics and concepts**

We believe the conceptual framework would benefit from some cross references, or direct explanations in Chapter 2 to draw some linkages between the characteristics of public sector entities and the impact they have on financial reporting (recognition and measurement). Currently it is difficult for a user to see the connections quickly and clearly.

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**  
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[www.toronto.ca](http://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,



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

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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 « *Le Cadre conceptuel de l’information financière dans le secteur public canadien* ».

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 heureux de constater que plusieurs des commentaires qu'ils avaient formulés à propos de l'énoncé de concepts « Cadre conceptuel révisé pour le secteur public canadien », ont été retenus dans les nouvelles propositions incluses dans le cadre conceptuel.

Toutefois, ils ont soulevé des préoccupations concernant l'échéancier prévu par le CCSP pour ce projet.

D'abord, les membres sont d'avis que la période et la durée de la consultation pourrait mettre une pression indue sur les intervenants du secteur. Ils sont d'avis que cette pression pourrait compromettre la profondeur et la qualité des commentaires transmis au CCSP dans le cadre de ce projet qui revêt un caractère extrêmement important. Ils ont jugé que la période de consultation initiale n'était pas appropriée, car elle coïncidait avec la période de fin d'année financière d'un bon nombre de parties prenantes du secteur et qu'elle était trop courte. Ces enjeux ont été transmis aux représentants du CCSP et les membres sont heureux de constater qu'il a accepté de prolonger la période de consultation jusqu'au 30 juin.

De plus, ils auraient souhaité, pour faciliter leur analyse des propositions, qu'un document de comparaison avec le cadre conceptuel actuellement en vigueur, soit préparé. Ainsi, leur travail d'analyse aurait été beaucoup plus facile et aurait comporté moins d'enjeux dans la période choisie par le CCSP pour recueillir les commentaires. À tout le moins, un document présentant les différences les plus importantes aurait, selon eux, dû être présenté. Or, les membres ont dû faire cette analyse par eux-mêmes. Les membres du groupe de travail ont également pris connaissance du document « Comparaison sommaire entre le projet de cadre conceptuel révisé du CCSP et le cadre conceptuel existant de l'IPSASB » et ont apprécié que la comparaison ait été effectuée et partagée par le CCSP. Toutefois, ces documents n'ont pas permis de faire la comparaison avec le cadre conceptuel actuellement en vigueur.

Plusieurs membres du groupe de travail de l'Ordre sont impliqués depuis la publication de l'énoncé de principes, mais ils font valoir que ce n'est pas le cas pour tous les intervenants du secteur public qui commenteront.

## QUESTION SPÉCIFIQUE DU CCSP

### Appuyez-vous les concepts énoncés dans le cadre conceptuel proposé?

Oui, les membres appuient généralement les concepts énumérés dans le cadre conceptuel proposé, mais ils ont fait des commentaires et relevé des enjeux au sujet de certains paragraphes inclus dans les propositions et qui sont détaillés ci-dessous.

## CHAPITRE 1 : PRÉFACE DU CADRE CONCEPTUEL

L'affirmation au paragraphe 1.07 à l'effet que le cadre conceptuel ne fait pas partie des PCGR est mal perçue en général par les membres, mais ils conviennent que le concept est cohérent avec d'autres référentiels comptables généralement reconnus comme les IFRS et les NCECF et ils sont d'accord que le cadre conceptuel ne doit pas avoir préséance sur les normes édictées. Ils sont toutefois d'avis que les paragraphes 1.05 et 1.06 sont suffisants et ils proposent donc de retirer le paragraphe 1.07.

De plus, ils jugent que le paragraphe 1.09 des propositions peut créer de la confusion sur les intentions du CCSP à propos des incohérences éventuelles par rapport au cadre conceptuel. Ils proposent l'utilisation d'un texte similaire à celui du paragraphe SP1.3 du cadre conceptuel des IFRS qui est reproduit ci-dessous :

SP1.3 **Pour satisfaire à l'objectif de l'information financière à usage général**, le Conseil peut parfois spécifier des dispositions qui dérogent du *Cadre conceptuel* à certains égards. S'il le fait, il justifiera la dérogation dans la base des conclusions de la norme en cause.

## CHAPITRE 2 : CARACTÉRISTIQUES DES ENTITÉS DU SECTEUR PUBLIC

Les membres sont d'avis que les caractéristiques décrivant le système parlementaire canadien présentées dans le paragraphe 2.44 ne définissent pas les entités du secteur public comme telles et ne font qu'alourdir le texte et créer de la confusion à propos des entités du secteur public qui ne font pas face à un tel processus.



### CHAPITRE 3 : OBJECTIF DE L'INFORMATION FINANCIÈRE

Certains membres sont d'avis que les éléments présentés aux paragraphes 3.29 et 3.30 des propositions comportent un lot important d'enjeux en pratique. Selon eux, ce ne sont pas toutes les communications, auxquelles on fait référence dans ces paragraphes, qui se retrouvent dans les états financiers, notamment les informations prévues à 3.29 a). Les membres croient que le CCSP devrait clarifier que ces informations ne se retrouvent pas dans les états financiers, car certains pourraient penser qu'il existe une attente au sujet de la présentation de ces informations dans les états financiers.

Les membres précisent que pour plusieurs organismes notamment les organismes municipaux, les budgets ne sont pas préparés conformément aux normes applicables pour la présentation des états financiers. Une conciliation du budget et des résultats doit être présentée en note aux états financiers. De plus, les auditeurs n'auditent pas le processus de préparation des budgets, mais uniquement le fait que les budgets présentés dans les états financiers reflètent les budgets approuvés à l'origine. Ainsi, l'indication que les budgets n'ont pas été audités est parfois présente dans les états financiers de ces entités. De plus, les explications sur les écarts entre la performance et le budget, ne sont normalement pas auditées et ne font généralement pas partie des informations qui font partie intégrante des états financiers d'une entité du secteur public. Les membres concluent que la notion d'audit des informations financières non historiques n'est pas claire et qu'elle fait l'objet de diversité dans la pratique. Pour certains, il s'agit uniquement de s'assurer que le budget est celui autorisé à l'origine, pour d'autres elle pourrait s'étendre au processus d'élaboration du budget. Les membres concluent que cette diversité dans la pratique pourrait confondre les utilisateurs de l'information financière et qu'une clarification des attentes pourrait être pertinente.

Ensuite, 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 3.29 et 3.30, ne cerner que les autorisations législatives applicables aux états financiers spécifiquement. Au sujet des autorisation législatives qui ne concernent que les autres informations, comme celles qui seraient incluses dans un rapport annuel, les membres proposent plutôt de les déplacer dans la préface du cadre conceptuel. Ces remarques sont cohérentes, selon eux, aux paragraphes BC6.22 et .23 du document intitulé « *Base des conclusions* ».

## CHAPITRE 9 : COMPTABILISATION ET MESURE DANS LES ÉTATS FINANCIERS

Les membres indiquent qu'une restructuration dans le secteur public pourrait ne pas résulter en un changement pour une entité consolidée. En effet, selon eux, les activités d'une entité du groupe peuvent être maintenues autrement dans le groupe consolidé sans qu'il n'y ait d'impact sur les services offerts. Ils sont d'avis qu'il est typique pour un gouvernement de restructurer sans nécessairement cesser les activités et cette situation ne devrait pas avoir d'impact sur la mesure des éléments d'actif et de passif. Les membres sont donc d'avis qu'on devrait modifier le paragraphe 9.39 pour considérer cet aspect, car la cessation des activités n'implique pas nécessairement une incertitude de continuité.

## CHAPITRE 10 : CONCEPTS DE PRÉSENTATION RELATIFS AUX ÉTATS FINANCIERS

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 proposent plutôt d'ajouter au chapitre 7 : Caractéristiques qualitatives des informations présentées dans les états financiers et aspects connexes à considérer, 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. Notons comme exemple les conciliations permettant de déterminer l'excédent ou le déficit de l'exercice à des fins fiscales présentées dans les états financiers des municipalités québécoises et les informations au sujet des changements climatiques qui feront partie intégrante des états financiers des villes de Montréal, Toronto et Vancouver.

Les membres sont préoccupés par le texte du paragraphe BC10.15 du document intitulé « *Base des conclusions* », principalement par l'aspect « comptabilisation » des informations selon des exigences légales. Normalement, lorsqu'un traitement s'écarter des exigences des PCGR applicables, l'auditeur qualifiera son rapport d'audit. Le fait de reconnaître qu'une exigence légale puisse avoir préséance sur les PCGR inquiète beaucoup. Cette ouverture risque de causer une propension à légiférer lorsqu'un

gouvernement décide de ne pas appliquer une exigence des PCGR. Les membres se questionnent sur les situations qui sont visées par ce paragraphe.

Aussi pour eux, une situation de « non-respect des PCGR » n'est pas liée à la présentation d'information additionnelle par voie de notes ou de tableaux complémentaires dans les états financiers. Le paragraphe BC10.15 ne cadre pas avec le titre de la section et n'est pas traité dans la bonne section des bases de conclusions.



First Nations  
**FINANCIAL  
MANAGEMENT  
BOARD**

**CONSEIL  
DE GESTION  
FINANCIÈRE** des  
Premières Nations

# Response to ‘The Conceptual Framework for Financial Reporting in the Public Sector – 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 The Conceptual Framework for Financial Reporting in the Public Sector – 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, ‘The Conceptual Framework for Financial Reporting in the Public Sector’, dated January 2021.

The FMB agrees with the concepts in the proposed Conceptual Framework overall. However, we continue to have some concerns with language that we believe could be more inclusive of Indigenous governments. 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.

The FMB appreciates that the Exposure Draft emphasizes accountability. We also recognize that PSAB, through its Draft 2022-2027 Strategic Plan, is actively looking to increase engagement with Indigenous governments and emerging accounting and reporting issues on environmental, social and governance. With the recent adoption of the *United Nations Declaration on the Rights of Indigenous Peoples Act* (“UNDRIPA”) and recent discoveries of unmarked graves in former Indian residential schools, the accountability for reconciliation between public institutions and the Indigenous Peoples has never been greater. The FMB believes that PSAB can play a monumental role to advance reconciliation and enhance accountability for every public sector entity.

To enhance accountability on reconciliation with the Indigenous Peoples, the FMB believes that the Conceptual Framework should establish a concept of accountability reporting on reconciliation with the Indigenous Peoples. In order to achieve this, we look towards the ‘94 Calls to Action’ commissioned by the Truth and Reconciliation Commission of Canada<sup>1</sup> (“the TRC”) and the obligations now contained in UNDRIPA to provide the Canadian public sector with the pathway for reconciliation.

The TRC calls upon all levels of government to respond to a number of social issues, in which many of these Calls to Action will carry measurable financial cost. We believe that there is a place in the Conceptual Framework to lay a foundation for accountability reporting to enhance transparency in public sector entities’ commitment to respond to these 94 Calls to Action. In particular, sections 43 and 44 call upon all levels

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<sup>1</sup> Truth and Reconciliation Commission of Canada. *Calls to Action 2015*. [http://trc.ca/assets/pdf/Calls\\_to\\_Action\\_English2.pdf](http://trc.ca/assets/pdf/Calls_to_Action_English2.pdf)

of governments to fully adopt and implement the United Nations Declaration on the Rights of Indigenous Peoples (“UNDRIP”) and the Government of Canada to develop a national action plan, strategies and other concrete measures to achieve the goals of UNDRIP. With UNDRIPA receiving Royal Assent on June 21, 2021, the need for a national action plan is imminent. We are asking PSAB to respond by establishing standards or guidance for public sector entities to report on their commitment to implement UNDRIPA and respond to a national action plan, strategies and other concrete measures.

PSAB also has an opportunity to lead economic reconciliation. Section 92 of the Calls to Action call upon the corporate sector in Canada to adopt UNDRIP and commit to meaningful consultation and equitable access to jobs and education opportunities. We believe that public sector entities must also respond to this call, in particular, the need for meaningful consultation with the Indigenous Peoples. Article 32.2 of UNDRIP requires the all levels of government to “consult and cooperate in good faith with the Indigenous Peoples...in order to obtain their free and informed consent prior to approval of any project affecting their lands or territories and other resources...” As stewards of lands, water, natural resources and capital infrastructures, public sector entities must report on their commitment to engage in a meaningful consultation with the Indigenous Peoples as a part of their stewardship. The FMB believes that the concept of ‘free, prior and informed consent’ should be embedded in the Conceptual Framework under stewardship of public resources and multi-dimensional accountability reporting.

In addition, the FMB believes that an accounting issue will emerge as the financial obligations or liabilities will have to be estimated by public sector entities when implementing UNDRIPA. In particular, Article 28 gives the right to the Indigenous peoples “to redress, by means that can include restitution or, when this is not possible, just, fair and equitable compensation, for the lands, territories and resources which they have traditionally owned or otherwise occupied or used, and which have been confiscated, taken, occupied, used or damaged without their free, prior and informed consent.”

The FMB believes that through the Exposure Draft for the Conceptual Framework for Financial Reporting, PSAB has a great opportunity to establish a solid foundation that will encourage public sector entities to report the financial and non-financial events and transactions arising from Canada’s reconciliation with the Indigenous Peoples. This reconciliation is no longer an “emerging” future accounting issue; we believe PSAB must respond now to establish accountability reporting that is needed by every public sector entity.

We thank you for the opportunity to express our support for this and other Exposure Drafts. 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><b>Do you agree with the concepts in the proposed Conceptual Framework?</b></p>	<p>We agree with the concepts in the proposed Conceptual Framework overall.</p> <p>We acknowledge that several of our suggested changes to the Statement of Concepts document issued in 2019 have been accepted, specifically in the following areas:</p> <ul style="list-style-type: none"> <li>• Addition of language on the forms of Indigenous governments,</li> <li>• Issuance of a guideline on the accounting for purchased intangibles, and</li> <li>• Amendment of language related financial objectives to be more inclusive.</li> </ul> <p>We continue to have some concerns with language that we believe could be more inclusive to Indigenous governments as well as specific comments related to a limited number of issues. Our comments are included for your consideration.</p> <p>We believe the relationship between PSAB and Indigenous governments will continue to evolve. Canada's recent adoption of the <i>United Nations Declaration on the Rights of Indigenous Peoples Act</i> (“<i>UNDRIPA</i>”), which received royal assent on June 21, 2021, will change the relationship between Indigenous governments and other levels of government. The enactment of <i>UNDRIPA</i> will result in enhanced accountability for all parties, which will in some cases, be financial in nature, and each party must be accountable to the action plan that will be established to implement the Articles of United Nations Declaration on the Rights of Indigenous Peoples.</p> <p>We believe our perspective aligns with that of PSAB, and the proposal in its Draft Strategic Plan for 2022-2027 to increase its engagement with Indigenous governments, to ensure that the conceptual framework and the standards reflect the rights of Indigenous governments and address their unique needs and challenges.</p>



## Additional Comments

Paragraph Reference	Paragraph from ED or context for recommendation	Recommendation
2.05 -2.42	<p>The characteristic of inherent public accountability was re-ordered to the beginning of the list of characteristics and the definition of government was removed from the glossary.</p>	<p>The change in ordering of the characteristics of public sector entities result in the use of the word Indigenous for the first time in paragraph 2.19 in the context of taxation. Previously, the definition of government provided clarity on scope of this document.</p> <p>We acknowledge that additional content on Indigenous governments has been added to the document in various sections, including the section on unique government structures beginning at paragraph 2.34.</p> <p>However, we believe the recognition of Indigenous governments earlier in Chapter 2 would provide better clarity regarding the scope of this document and allow Indigenous governments and related organizations to see themselves with the scope of this document.</p> <p>We recommend that paragraph 2.07 be amended to specifically refer to Indigenous governments.</p> <p>We suggest the second sentence be amended as follows:</p> <p><b>“Governments, <u>whether resulting from laws or the inherent right to self-determination in the case of some Indigenous governments</u>, are likely to have all the characteristics.”</b></p>
2.25	<p>... The federal and provincial governments' debt capacity is limited by the ability of the tax base of their jurisdiction to bear that debt and the financial community's assessment of that ability. Some territorial, local and Indigenous governments, and some government organizations have legislated restrictions on the amount and type of debt that can be issued.</p>	<p>We are not aware of Indigenous governments having a legislated limit to total debt that can be borrowed. Indigenous governments can generally borrow what a lender is prepared to offer based on their financial performance, security that is made available and debt service capacity. This paragraph should be amended to remove the reference to Indigenous governments unless examples are available that support inclusion.</p>

Paragraph Reference	Paragraph from ED or context for recommendation	Recommendation
2.42	<p>The Constitution recognizes and affirms existing Indigenous and treaty rights of the Indian, Inuit and Métis peoples of Canada. Indigenous government jurisdiction may be established, affirmed or recognized in Canada by federal and, where applicable, provincial and territorial governments through treaties, self-governing agreements, legislation and policy.</p>	<p>For non-Indigenous governments, the Constitution may be viewed as the starting point to understand government structures in Canada. The Constitution sets out the two levels of sovereign governments. The territories and local governments are creations of the federal and provincial governments respectively. However, as referenced in paragraphs 2.34 through 2.37, Indigenous governments' right to self-determination is separate and apart from the Constitution.</p> <p>We recommend paragraph 2.42 be amended to acknowledge Indigenous inherent rights that exist in addition to those created by law.</p> <p><b><u>“In addition to the Indigenous governments’ right to self-determination, the Constitution recognizes and affirms existing Indigenous and treaty rights of the Indian, Inuit and Métis peoples of Canada. Indigenous government jurisdiction may be established, affirmed or recognized in Canada by federal and, where applicable, provincial and territorial governments through treaties, self-governing agreements, legislation and policy.”</u></b></p>
2.59	<p>Public sector entities are expected to maintain the public resources entrusted to them, including the capital infrastructure that supports the economic activities of a jurisdiction. Stewardship of public resources means that they are managed with the intent of ensuring the capability of these systems to survive and adapt to support current and future generations.</p>	<p>We note that the term “capital infrastructure” is only used once in the Exposure Draft. Capital is used many times, generally in the context of capital assets. We find the term capital infrastructure, while not defined, suggestive of human constructed capital assets, and recommend that other public resources, such as land, water and natural resources also be referenced as the public resources that public sector entities are expected to maintain, preserve or protect.</p> <p>We suggest the following amendment to the first sentence, “<b><u>... including land, water, natural resources and capital infrastructure, all of which support the economic activities of a jurisdiction.</u></b>”</p>

Paragraph Reference	Paragraph from ED or context for recommendation	Recommendation
2.68 - 2.70	Longevity of the Public Sector	<p>We agree with the addition of the characteristic of longevity; however, we believe this section focuses on those governments and government programs that exist as a result of the Constitution and other related laws. The concepts of Indigenous inherent rights and hereditary leadership also reflect the concept of longevity.</p> <p>We recommend a new paragraph be added between 2.69 and 2.70 stating:</p> <p><b>“Indigenous governments, that emanate from the Indigenous peoples’ inherent rights to self-government and hereditary governance systems, are reflection of longevity.”</b></p>
3.20	<p>An entity’s service capacity is broadly affected by, but is not limited to:</p> <ul style="list-style-type: none"> <li>(a) its powers to tax, legislate and regulate, license, fine and penalize or otherwise raise public resources;</li> <li>(b) its ability to borrow (i.e., its debt capacity);</li> <li>(c) the productivity, efficiency and effectiveness of its resources and programs;</li> <li>(d) the skills and capabilities of its labour force;</li> <li>(e) the innovativeness of its people and programs;</li> <li>(f) its funding relationships and the stability of its funding arrangements; and</li> <li>(g) its economic resources net of its economic obligations.</li> </ul>	<p>We agree with the factors noted that may impact an entity’s service capacity and note the limitations articulated in the Exposure Draft regarding the boundaries of financial reporting with respect to reporting on these factors. These factors are very important to Indigenous governments.</p> <p>We also note the section starting at paragraph 3.20-23 regarding the context of public sector accountability.</p> <p>We believe two additional elements of the service capacity (accountability) should be added. Every Canadian public sector entity has a responsibility and duty to implement articles of United Nations Declaration of the Rights of Indigenous People (“UNDRIP”) and reconcile with the Indigenous peoples by responding to 94 Calls to Action commissioned by Truth and Reconciliation Commission of Canada<sup>2</sup>. We believe that one of many ways to enhance accountability to reconcile with the Indigenous Peoples is for public sector entities to respond to 94 Calls to Action commissioned by Truth and Reconciliation Commission of Canada. We recommend adding following wording as two elements of “service capacity”:</p> <p><b>“(h) its duty to reconcile with the Indigenous Peoples; and (i) its action plan to implement Articles of United Nations United Nations Declaration on the Rights of Indigenous Peoples”</b></p>

<sup>2</sup> Truth and Reconciliation Commission of Canada. *Calls to Action 2015*. [http://trc.ca/assets/pdf/Calls\\_to\\_Action\\_English2.pdf](http://trc.ca/assets/pdf/Calls_to_Action_English2.pdf)

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		<p>We believe PSAB should include a statement in the section starting at 3.21 that is more encouraging of public sector entities to report on all matters impacting service capacity. Including such a statement aligns with proposed strategy 4 in PSAB's Draft Strategic Plan for 2022-2027, which notes sustainability reporting as one of the most significant emerging issues.</p> <p>We also recommend the third sentence of paragraph 3.31 be amended as follows:</p> <p><b>“Reporting by public sectors entities, <u>who are committed to being accountable for the services they provide and the resources they are responsible for</u>, would comprise multi-dimensional accountability reporting that would include:...”</b></p> <p>In addition, we believe that another element should be added to the elements of multi-dimensional accountability reporting in paragraph 3.31. We believe that every public sector entity should report on its accountability to reconcile with the Indigenous Peoples and its actions plan to implement Articles of UNDRIP. Therefore, we proposed following wording to be included as another element of multi-dimensional accountability reporting:</p> <p><b>“(e) Reporting on the reconciliation with the Indigenous Peoples and implementation of Articles of United Nations Declaration on the Rights of Indigenous Peoples”</b></p> <p>As the Exposure Draft has pointed out in paragraph 3.23, such type of accountability report is not strictly financial. We note that PSAB is actively engaged in emerging accounting and reporting issues such as reporting on environmental, social and governance (“ESG”) as outlined in your proposed Draft Strategic Plan for 2022-2027. We believe that accountability reporting on the reconciliation with the Indigenous Peoples should be explored much sooner. For example, the statements of recommended practice (“SORP”) 1 and 2, SORP-1 Financial Statement Discussion &amp; Analysis and SORP-2 Public Performance Reporting, could be re-visited to include guidance on how to report on the reconciliation with the Indigenous Peoples and implementation of Articles of UNDRIP.</p>

Paragraph Reference	Paragraph from ED or context for recommendation	Recommendation
3.22 3.31-32	<p data-bbox="352 248 949 456">3.22 Reporting on service capacity and service capacity maintenance responds to the stewardship and sustainability aspects of accountability, as an entity's service capacity will affect its ongoing ability to meet its objectives in the short and long term.</p> <p data-bbox="352 496 848 563"><b>Context of Public Sector Accountability Reporting</b></p> <p data-bbox="352 566 949 841">3.31 Public accountability requires transparency in the reporting of both financial and non-financial information. The complex nature of the public sector, its myriad objectives and the overriding objective of public accountability require multifaceted reporting. Ideally, reporting by a public sector entity would comprise multi-dimensional accountability reporting that includes:</p> <ul data-bbox="401 862 915 1154" style="list-style-type: none"> <li>a) financial statements;</li> <li>b) other information about an entity's financial condition, including future-oriented sustainability information;</li> <li>c) supplementary financial performance information; and</li> <li>d) non-financial performance information.</li> </ul> <p data-bbox="352 1195 949 1435">3.32 The following diagram illustrates the multi-dimensional nature of public sector accountability reporting. As illustrated in Figure 3.1, the three broad accountabilities are demonstrated through various public sector accountability reports, including financial statements and reports outside the financial statements.</p>	<p data-bbox="978 248 1892 456">We agree with proposed concept of service capacity and we agree that reporting on service capacity and service capacity maintenance responds to the stewardship and sustainability aspects of accountability. However, as defined in 3.20, the service capacity is a broad concept and financial statements alone will not provide sufficient information to meet all elements of service capacity. (Limitations acknowledged by PSAB in 3.23 and 4.08.)</p> <p data-bbox="978 496 1892 737">There is an opportunity to introduce the “other accountability reporting” more prominently. For example, the concept of an annual report or a reference to annual report requirement mandated by various legislations should be introduced. Many Indigenous Governments must adhere to either a Financial Administration Law (“FAL”) or a Financial Administration By-Law (“FAB”) which include an annual report requirement. More than 220 Indigenous Governments have enacted their FAL under the <i>First Nations Fiscal Management Act</i>.</p>

Paragraph Reference	Paragraph from ED or context for recommendation	Recommendation
6.31	<p>6.31 Actual financial performance needs to be compared with the originally approved budget of the entity. A comparison with a budget that has been updated to take into account transactions and other events occurring during the period significantly reduces the accountability value of the comparison. Such comparison may reduce differences and limit explanations of changes occurring throughout the period. However, there may be rare circumstances in which an amended approved budget may be more useful for accountability purposes.</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 Standards<sup>3</sup> 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 31<sup>st</sup>.</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 must be approved by both the Finance and Audit Committee as well as the Council by July 15<sup>th</sup>.</p> <p>Under the <i>FNFMA</i>, many First Nations approve their annual tax rates law and annual expenditure law subsequent to March 31<sup>st</sup> 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> <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>

<sup>3</sup> 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](https://fnfmb.com/sites/default/files/2019-07/a2_-_financial_administration_law_standards_-_april_1_2019_-_en_-_v2.pdf)

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		<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 &amp; 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"> <li>• Expand to provide for the presentation of an amended budget if that amendment is specifically required or provided for in the relevant legislation or law of the reporting entity.</li> <li>• Expand to provide for the presentation of an amended budget if amended budget figures provide more accountability to its users.</li> <li>• 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.</li> </ul>

Joseph Mancina, B. Comm, CPA CGA  
Chief Financial Officer and City Treasurer

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](mailto:dseguin@citywindsor.ca)).

Sincerely,

  
FOR Joe Mancina  
CFO and City Treasurer

cc. Donna Herridge, Municipal Finance Officers’ Association of Ontario ([donna@mfoa.on.ca](mailto:donna@mfoa.on.ca))  
cc Jason Reynar, CAO, City of Windsor ([caodept@citywindsor.ca](mailto:caodept@citywindsor.ca))