Basis for Conclusions

The Conceptual Framework for Financial Reporting in the Public Sector

December 2022

CPA Canada Public Sector Accounting Handbook

PSAB
Public Sector
Accounting Board

Prepared by the staff of the
Public Sector Accounting Board

FOREWORD

The primary objective of a Basis for Conclusions document is to set out how the Public Sector Accounting Board (PSAB) reached its conclusions. As well, it sets out significant matters arising from comments received in response to the proposals exposed and indicates how PSAB has dealt with the issues raised.

These documents are intended to assist financial statement users, preparers, auditors and other parties interested in public sector financial reporting in understanding the rationale followed by PSAB.

This document has been prepared by staff of PSAB. It does not form part of the CPA Canada Public Sector Accounting (PSA) Handbook nor is it part of public sector generally accepted accounting principles (GAAP). Basis for Conclusions documents also do not include any guidance on the application of the relevant Section or Guideline.

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INTRODUCTION

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Background

BC.01 In 2010, PSAB approved the Concepts Underlying Financial Performance project.

BC.02 The objective of the Concepts Underlying Financial Performance project was to review and amend, if necessary:

(a) the concepts underlying financial performance in the superseded public sector conceptual framework, FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100; and

(b) the reporting model in FINANCIAL STATEMENT PRESENTATION, Section PS 1201.

BC.03 The result of the project was a 10-chapter Conceptual Framework and the development of a standard for a financial statement reporting model, FINANCIAL STATEMENT PRESENTATION, Section PS 1202. Section PS 1202 is expected to be issued in 2023.

Why review and amend the conceptual framework

BC.04 PSAB reviewed its superseded conceptual framework because:

(a) It is necessary for a standard setter to periodically review its conceptual framework to ensure it remains relevant.

(b) Stakeholders asked the Board to look at the conceptual framework to ensure it properly reflects and is grounded in the public sector environment.

(c) 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 the Board to reconfirm their appropriateness.[1]

1 The 2007-2009 Joint Working Group comprised selected PSAB members and deputy ministers of finance. It suggested the superseded conceptual framework in the PSA Handbook required review, with a focus on reporting the financial performance of public sector entities.

BC.05 The review of the superseded conceptual framework led to a review of FINANCIAL STATEMENT PRESENTATION, Section PS 1201. This Basis for Conclusions focuses only on the key decisions in relation to the development of The Conceptual Framework for Financial Reporting in the Public Sector ("the Conceptual Framework"). A Basis for Conclusions will accompany FINANCIAL STATEMENT PRESENTATION, Section PS 1202, when it is issued, explaining the key decisions relating to it.

Issued documents for comment

BC.06 Since the project's inception, the Concepts Underlying Financial Performance Task Force ("the Task Force") issued three Consultation Papers and PSAB issued six other documents for comment.

BC.07 In August 2011, the Task Force issued Consultation Paper 1, "Characteristics of Public Sector Entities." Its purpose was to refine and better describe the characteristics of governments and other public sector entities. Through this Consultation Paper, the Task Force gathered feedback on the key characteristics of public sector entities that have financial reporting implications and created Chapter 2 of the Conceptual Framework. These characteristics are intended to ground the development of concepts and principles in the realities of the public sector environment.

BC.08 In October 2012, the Task Force issued Consultation Paper 2, "Measuring Financial Performance in Public Sector Financial Statements." It articulated the objective of public sector financial reporting, the primary users of those reports, broad financial reporting accountabilities and more specific financial statement accountabilities. It also asked for stakeholders' views on three possible reporting model approaches. Through this Consultation Paper, the Task Force gathered feedback to create Consultation Paper 3 and Chapter 3 of the Conceptual Framework, as well as received direction on the preferred reporting model approach.

BC.09 In March 2015, the Task Force issued Consultation Paper 3, "Conceptual Framework Fundamentals and the Reporting Model." It highlighted many of the concepts and principles proposed for a revised conceptual framework and reporting model. The feedback from this Consultation Paper provided guidance to develop the reporting model proposed in the Statement of Principles and the concepts in the Statement of Concepts.

BC.10 In May 2018, PSAB issued:

(a) the Statement of Concepts, "A Revised Conceptual Framework for the Canadian Public Sector"; and

(b) the Statement of Principles, "A Revised Reporting Model for the Canadian Public Sector."

BC.11 PSAB received a significant amount of feedback on these documents. The feedback from the Statement of Concepts and Statement of Principles provided guidance for the development of various exposure drafts. In January 2021, PSAB issued the:

(a) Exposure Draft, "The Conceptual Framework for Financial Reporting in the Public Sector";

(b) Exposure Draft, "Consequential Amendments Arising from the Proposed Conceptual Framework";

(c) Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202"; and

(d) Exposure Draft, "Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202."

BC.12 PSAB received a significant amount of feedback on these documents. It received:

(a) 56 response letters, representing more than 110 respondents to the Conceptual Framework Exposure Draft; and

(b) 67 response letters, representing more than 180 respondents to the Financial Statement Presentation Exposure Draft.

BC.13 PSAB appreciated the extensive feedback received on the various Exposure Drafts. The comment period was during the COVID-19 pandemic, a challenging time for all. The Board acknowledges stakeholders' efforts to provide input while dealing with other extraordinary challenges.

BC.14 When developing the concepts and principles, PSAB also considered international developments with conceptual frameworks in the public and private sectors, its proposals in other projects on its technical agenda, its strategic objectives and the recommendations arising from the work of the Joint Working Group's subgroups.

Scope

BC.15 The Conceptual Framework replaces the conceptual aspects of FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100. Other aspects of Sections PS 1000 and PS 1100 are moved to FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

BC.16 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, and GOVERNMENT REPORTING ENTITY, Section PS 1300, are part of GAAP and consideration of them was outside the scope of the project. Further, given issues raised at the standards level, PSAB specifically clarified that reconsideration of principles in GOVERNMENT TRANSFERS, Section PS 3410, and FINANCIAL INSTRUMENTS, Section PS 3450, was also outside the scope of the project.

BC.17 PSAB undertook two separate initiatives in relation to Sections PS 3410 and PS 3450:

(a) The Board initiated and completed the Financial Instruments – Narrow Scope Amendments project to review specific aspects of Section PS 3450. As a result, the Board amended Section PS 3450.

(b) The Board initiated and completed a post-implementation review of Section PS 3410 and decided that no changes to the Section were necessary.

Applicability

BC.18 The Conceptual Framework applies to all public sector entities applying the CPA Canada Public Sector Accounting (PSA) Handbook in preparing general purpose financial statements, including government not-for-profit organizations applying the PS 4200 series of standards (the accounting standards that apply only to government not-for-profit organizations).

BC.19 Those public sector entities that apply the PS 4200 series of the PSA Handbook would continue to do so. Any amendments to the PS 4200 series of standards would be made through PSAB's Government Not-for-Profit Strategy project.

How the Conceptual Framework Affects PSAB's International Strategy and Setting of Future Standards

BC.20 The Conceptual Framework will be the guide for setting future Canadian Public Sector Accounting Standards (PSAS).

BC.21 In May 2020, PSAB recommitted to continue developing future PSAS that serve the public interest, but agreed how it does so would change. When developing future standards, the Board will now leverage the principles of International Public Sector Accounting Standards (IPSAS) if an IPSAS equivalent standard already exists, and the Board determines that a modification of those principles is not required.

BC.22 PSAB will modify a principle in an IPSAS standard if:

(a) it is contrary to the Board's Conceptual Framework; or

(b) the Board finds the IPSAS principle is not appropriate for application in Canada based on the Canadian public interest.

BC.23 Many respondents to the International Strategy Consultation Paper supported PSAB's decision to adapt IPSAS principles when developing future standards. This decision is different from a strategy to adopt IPSAS principles. An adoption strategy would require the same Conceptual Framework as that of the International Public Sector Accounting Standards Board (IPSASB). In contrast, PSAB's chosen strategy to adapt IPSAS principles means PSAB's Conceptual Framework will be the reference for developing PSAS.

BC.24 PSAB's Conceptual Framework is different in some ways from the IPSASB's Conceptual Framework. These differences arose as a result of PSAB following its due process: after consulting stakeholders PSAB debated the differences and deemed them appropriate. The main differences are with the financial statement objectives, elements, recognition criteria and measurement concepts. These differences, effective at the time of issue of the Conceptual Framework, are outlined in Chapters 6, 8 and 9 of this Basis for Conclusions.

The GAAP Hierarchy and IPSAS

BC.25 As part of its international strategy decision, PSAB updated the GAAP hierarchy in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, to position IPSAS as the first accounting framework to consult among pronouncements issued by other bodies authorized to issue accounting standards when PSAS are silent and an entity is developing an accounting policy. IPSAS would be consulted when the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity when it is developing a new accounting policy.[2] Paragraph 9 of the Basis for Conclusions for Section PS 1150 states:

> While IPSAS pronouncements are to be consulted first when it is necessary to consult pronouncements issued by other bodies authorized to issue accounting standards, Canadian stakeholders can use their professional judgment and consult pronouncements by other standards setters, if, in their view, the IPSAS pronouncement is not:

2 Refer to paragraph BC CA.17 for an explanation and discussion on entity-developed accounting policies.

(a) suited to the Canadian environment;

(b) consistent with PSAB's Conceptual Framework or other primary sources of GAAP; or

(c) the most relevant in the circumstances.

BC.26 As a result, when an IPSAS is inconsistent with PSAB's Conceptual Framework, pronouncements of other standards setters would be consulted.

CHAPTER 1: INTRODUCTION TO THE CONCEPTUAL FRAMEWORK

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Background

BC1.01 Chapter 1 of the Conceptual Framework defines a conceptual framework and outlines the importance, applicability, objectives, components and transitional provisions of the Conceptual Framework.

Standards Inconsistent with the Conceptual Framework

BC1.02 PSAB is aware that some standards in the PSA Handbook are inconsistent with the Conceptual Framework. These inconsistencies will be considered when re-examination of the relevant standard is a priority for PSAB's technical agenda.

BC1.03 In rare circumstances, PSAB may need to depart from aspects of the Conceptual Framework. The Conceptual Framework acknowledges this. It also specifies that such approved departures are appropriate only if needed to meet the financial reporting objective: to provide information for accountability purposes. That need might arise because of new transactions or other events not contemplated in the Conceptual Framework or the economic environment may have evolved, and new or revised standards might need to reflect these changes.

BC1.04 PSAB concluded that the justification of an inconsistency between the standard and the Conceptual Framework should be in the relevant standard's Basis for Conclusions document. The purpose of the standard is to document the accounting for a specific transaction and the purpose of the Basis for Conclusions is to document the Board's decisions in arriving at the standard. The Board thought that having the justification for its decisions in the standard's Basis for Conclusions document was transparent and in line with its due process.

Authority of the Conceptual Framework

BC1.05 A few respondents expressed concern that the Conceptual Framework would not override existing standards. The position that the Conceptual Framework does not override existing standards is common to many conceptual frameworks, including those of the international standard-setting boards.

BC1.06 Although nothing in the Conceptual Framework overrides any specific standard, the Conceptual Framework is important and relevant because it will help:

(a) PSAB develop standards based on consistent concepts;

(b) preparers develop consistent accounting policies when no standard applies to a particular item, transaction or other event; and

(c) all parties understand and interpret the standards.

How the Conceptual Framework Fits within the GAAP Hierarchy

BC1.07 Prior to issuance of the Conceptual Framework and the related consequential amendments, GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.05 stated:

> When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:
>
> (a) the primary sources of GAAP; and
>
> (b) the application of the concepts described in Section PS 1000.[3]

BC1.08 The reference to FINANCIAL STATEMENT CONCEPTS, Section PS 1000 has been replaced with a reference to the Conceptual Framework, through consequential amendments.

Scope and Structure of the Conceptual Framework

BC1.09 The Conceptual Framework first sets out concepts relevant to all public sector financial reporting (Chapters 2-3).[4] It then establishes concepts and foundations necessary for financial statement reporting and establishing GAAP for financial statements of public sector entities (Chapters 4-10). The concepts and foundations in Chapters 4-10 may also be useful references for preparing other financial reports.

3 According to paragraph PS 1150.03(c), the “Primary sources of GAAP are, in descending order of authority: (i) standards in Sections PS 1201-PS 3510; (ii) Public Sector Guidelines; and (iii) appendices and illustrative materials of those pronouncements described in (i)-(ii) above.”

4 Financial reporting is discussed in Chapter 3 of the Conceptual Framework.

Transitional Provisions – Effective Date

BC1.10 PSAB proposed that the Conceptual Framework be effective immediately once approved for PSAB and once published for users. However, a few respondents to the Exposure Draft encouraged the Board to delay the effective date for users. They also argued that the Conceptual Framework should be effective at the same time as FINANCIAL STATEMENT PRESENTATION, Section PS 1202. The Board agreed for the following reasons:

(a) Preparers will require time to review financial statement disclosures to be in line with Chapter 10 of the Conceptual Framework.

(b) Since the financial statement objectives outlined in Chapter 6 of the Conceptual Framework foreshadow what is presented in the financial statements, it is appropriate for the financial statement objectives to be applicable at the same time as the related financial statement presentation standard, Section PS 1202.

BC1.11 As a result of delaying the effective date of the Conceptual Framework, PSAB made consequential amendments to GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, and ACCOUNTING CHANGES, Section PS 2120. These consequential amendments provide guidance in relation to entity-developed accounting policies during the period that the Conceptual Framework is published but not yet effective, and once the Conceptual Framework is effective. Further information on these consequential amendments is found in the section of this Basis for Conclusions relating to the Conceptual Framework Consequential Amendments titled “Amendments Related to Entity-Developed Accounting Policies.”

CHAPTER 2: CHARACTERISTICS OF PUBLIC SECTOR ENTITIES

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Background

BC2.01 Chapter 2 of the Conceptual Framework focuses on the key characteristics of public sector entities.

BC2.02 The chapter built on and replaced Appendix A, “Unique Characteristics of Government,” in FINANCIAL STATEMENT OBJECTIVES, superseded Section PS 1100. The characteristics in Appendix A identified the implications for financial statement reporting but did not fully describe the characteristics of the public sector environment.

BC2.03 The public sector environment is a crucial context for developing a conceptual framework, for setting public sector financial reporting standards and for understanding public sector financial statements. Identifying the characteristics of public sector entities, which include governments, government components, government organizations and partnerships, will result in concepts and standards that are appropriate to the public sector.

BC2.04 When developing this chapter, PSAB considered all public sector entities.

Characteristics of Public Sector Entities

BC2.05 Respondents supported the description of the characteristics of public sector entities.

BC2.06 Some respondents to the Exposure Draft suggested including an additional aspect to the unique governance structures characteristic. They thought that the possible interdependency between public sector entities to fulfill the obligation to serve the public should be recognized within the Conceptual Framework. PSAB agreed, however, it decided to use the term “interrelationships” rather than “interdependencies” to include all public sector entities. The term “interrelationships” also recognizes the increased importance of reviewing ongoing relationships with Indigenous Peoples, for example, as part of the Government of Canada’s 2021 adoption of the United Nations Declaration on the Rights of Indigenous Peoples.

Applicability to government components and government organizations

BC2.07 Government components and government organizations may have some unique characteristics that are different from those of the government. PSAB considered these characteristics. The Board concluded that at a conceptual level, the key characteristics of government components and government organizations for financial reporting purposes are the same as many of the key characteristics of governments. Throughout the chapter, the Board included material about how the characteristics apply to government organizations and government components (e.g., the proportion of exchange to non-exchange transactions of some government organizations may be higher than for governments). The material allows government components and government organizations to see themselves in the characteristics.

BC2.08 This does not mean that all of the characteristics apply to government components or government organizations. PSAB recognizes that several characteristics do not apply to all public sector entities (e.g., a monopolistic environment).

Identifying and describing the financial reporting implications of each characteristic

BC2.09 PSAB concluded that some characteristics of public sector entities fundamentally shape what is reported on in public sector financial reports. A key example is the inherent public accountability of public sector entities, which forms the lens through which the rest of the Conceptual Framework was developed, and which guides the information to be included in financial statements. The focus on service capacity and changes in it, to the extent it can be reported on in financial statements, is derived from the overall objective of public sector entities to serve the public.

BC2.10 Other characteristics of public sector entities (or related sub-characteristics) require special consideration in setting PSAS, as they represent issues unique to the public sector. Some may convey to public sector entities unique ways to raise or use resources. These include taxation and resource reallocation powers, the significance of non-exchange transactions, the nature of resources as primarily comprising future service potential rather than future cash flows, and the authority to fine and penalize and issue licences, etc.

Definition of Government

BC2.11 In the Glossary of the Statement of Concepts, PSAB proposed a definition of "government".

BC2.12 Many respondents disagreed with the proposed definition because they were concerned that the exceptions noted in the definition would create confusion. (In GOVERNMENT TRANSFERS, Section PS 3410, and in TAX REVENUE, Section PS 3510, and in budget approvals, the term "government" refers to the legislature or council.)

BC2.13 In determining the way forward, PSAB considered various options. Ultimately, the Board decided to not define "government" because:

(a) The reasons for reviewing the definition of "government" have been resolved through other changes in the Conceptual Framework and FINANCIAL STATEMENT PRESENTATION, Section PS 1202. (The federal and some provincial governments requested that the definition of "government" be reviewed as it referred to "elected and appointed policy-makers" in FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.02, rather than an ongoing entity that survives a change in the elected representatives.)

   (i) A key improvement in the Conceptual Framework is the introduction of Chapter 2, "Characteristics of Public Sector Entities." This chapter lays out the understanding of the public sector environment. Further, the Board included a discussion on the "longevity of the public sector," which mentions the longevity of governments.

   (ii) The definition of "government" noted in paragraph PS 1000.02 and FINANCIAL STATEMENT OBJECTIVES, paragraph PS 1100.02, is not part of the Conceptual Framework. This should remove any confusion the specific definition of "government" created.

   (iii) The enhanced going concern discussion in Section PS 1202 also refers to the longevity of public sector entities.

(b) PSA Handbook readers understand the term "government" to normally represent the whole of government financial reporting entity. They also understand what "government" refers to in Sections PS 3410 and PS 3510 in the authorization requirements.

CHAPTER 3: FINANCIAL REPORTING OBJECTIVE

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Background

BC3.01 Most of the material in Chapter 3 of the Conceptual Framework is based on material issued for comment in the Task Force's Consultation Paper 2, "Measuring Financial Performance in Public Sector Financial Statements." Respondents supported the primary users and the objective of financial reporting. The main change from Consultation Paper 2 related to the list of the broad accountabilities reported on in financial reports.

BC3.02 One of the broad accountabilities referred to the extent to which current activities or results affect the activities or results of future periods. After considering the feedback, which indicated that this focus was too narrow, PSAB amended this broad accountability to reflect the requirement for financial reports to show the entity's financial performance.

BC3.03 Another broad accountability dealt with "the extent to which the entity performed in accordance with its financial plan." Based on the work done on the characteristics of public sector entities, PSAB concluded that this broad accountability was limited because it did not consider the other dimensions related to legislated frameworks of which a "financial plan" is a part. Consequently, the accountability was expanded to state "the extent to which the entity performed in accordance with its financial authorities and plan."

BC3.04 PSAB also decided to include the broader notion of service capacity in this chapter as service capacity underpins the broad accountabilities of financial reporting in the public sector, specifically financial condition and financial performance. Chapter 4 of the Conceptual Framework explains the extent to which service capacity can be reported in financial statements.

The Concept of Service Capacity

BC3.05 Since the purpose of public sector entities is to serve the public, as indicated in Chapter 2 of the Conceptual Framework, evaluating an entity's capacity to serve the public is important for accountability purposes. This concept is referred to as service capacity. It is similar to the capital maintenance concept in private sector financial statements.[5] The intent of introducing this concept is to:

(a) explain how a fundamental tenet of accounting theory related to measuring financial performance applies in the public sector; and

(b) increase the understanding of the concept that underlies the measurement of financial position and financial performance in public sector financial statements.

BC3.06 The concept is not new; only its articulation in the Conceptual Framework and its label are. PSAB considered many different labels, such as "program capacity" and "capacity for future use". However, the Board felt that the term "service capacity" best reflects the concept from a public sector perspective.

BC3.07 In developing the description of service capacity, PSAB noted the following:

(a) The term "service capacity" would not replace any of the existing terminology in the financial statements; it is solely a label for an underlying concept. As a result, this should decrease the potential for confusion among users of financial statements.

(b) The term "service capacity" was at that time used more narrowly in the PSA Handbook to describe the service potential of tangible capital assets. As a result, clarifying consequential amendments to refer only to "service potential" were made in those paragraphs where the term applies at the asset level, rather than applied in the broader context.

(c) Financial statements cannot demonstrate or measure all aspects of service capacity or changes in it. Nevertheless, reporting the part of an entity's service capacity and changes in that capacity that can be reflected in financial statements is significant. It demonstrates the entity's accountability for the resources entrusted to it for serving the public.

BC3.08 The notion of service capacity underpins the broad accountabilities of public sector financial reporting, specifically financial condition and financial performance because:

(a) reporting on financial condition provides insight into an entity's service capacity; and

(b) reporting on financial performance provides insight into how an entity's decisions, transactions and other events of the period have affected its service capacity.

Financial Reporting Objective

BC3.09 The objective of financial reporting by public sector entities is to provide information for accountability purposes. Information provided for accountability purposes will contribute to and inform decision making by the public and its elected or appointed representatives and other users.

5 The notion of maintaining capital or not is important, as it is needed to measure financial performance.

Scope of the Broad Accountabilities

BC3.10 The chapter identifies the three broad accountabilities expected to be reported in financial reports. The Conceptual Framework first sets out concepts relevant to all public sector financial reporting (Chapters 2-3). It then establishes concepts and foundations necessary for financial statements (Chapters 4-10). As a result, Chapter 6 of the Conceptual Framework outlines how certain aspects of the broad accountabilities can be reflected in financial statements.

Reconciliation with Indigenous Peoples

BC3.11 The Truth and Reconciliation Commission of Canada has called on all peoples of this country to establish and maintain a mutually respectful relationship between Indigenous and non-Indigenous peoples. To that end, the Commission developed 94 Calls to Action. These 94 Calls to Action along with Canada's United Nations Declaration on the Rights of Indigenous People (UNDRIP) Act, which received Royal Assent in June 2021, provide a pathway toward reconciliation. It is crucial to review the Calls to Action, which include various aspects of UNDRIP to determine the possible implications on financial reporting. As a result, PSAB concluded that it was necessary to acknowledge the reconciliation with Indigenous Peoples within its Conceptual Framework. PSAB is committed to enhancing its relationship with Indigenous Peoples and their governments. And this is one of many steps it intends to take toward reconciliation.

CHAPTER 4: ROLE OF FINANCIAL STATEMENTS

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Background

BC4.01 Chapter 4 of the Conceptual Framework connects Chapters 1 and 2 and especially Chapter 3, which discusses the objective of financial reporting, with the remainder of the Conceptual Framework, which focuses on financial statements alone.

BC4.02 Financial statements are a fundamental component of an entity's financial reporting.

Service Capacity

BC4.03 Chapter 3 of the Conceptual Framework introduces the broad notion of service capacity. It explains that service capacity is not strictly financial; it includes non-financial aspects, such as productivity, innovativeness of people and programs, quality and education of the labour force, etc. Chapter 3 also explains that an entity's service capacity has implications for its financial condition and financial performance.

BC4.04 Chapter 4 of the Conceptual Framework recognizes that since service capacity is a broad concept, financial statements cannot demonstrate or measure all aspects of service capacity or changes in it. Nevertheless, reporting those aspects of an entity's service capacity and changes in it that can be reflected in financial statements, its financial position and periodic financial results, is significant. It helps demonstrate the entity's accountability for serving the public.

BC4.05 The maintenance of service capacity, and changes in it over time, provide the structure for identifying various measures of an entity's financial position and periodic financial results.

Implication of the service capacity concept on measurement decisions

BC4.06 Some of the feedback received on the service capacity discussion highlighted interest in whether the concept would have implications for measurement decisions.

BC4.07 According to accounting literature,[6] financial capital maintenance, the equivalent concept in the for-profit sector, describes the net resources that must be maintained to distinguish between what is a return of capital and what is income. It is measured at the monetary value of net resources, with the value determined in accordance with whatever basis is used for valuing the assets and liabilities of the enterprise (i.e., historical cost, current cost, etc.). Likewise, the service capacity concept, a financial concept of capital maintenance, does not require the use of any particular measurement attribute. Chapter 9 of the Conceptual Framework provides guidance on measurement.

BC4.08 A measure of an entity's service capacity that can be presented in financial statements is set out at the standards level in FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

6 The literature included: Ross M. Skinner and J. Alex Milburn, *Accounting Standards in Evolution*, 2nd ed. (Toronto: Pearson Education Canada, 2000); FASB Discussion Memorandum, "An Analysis of Issues Related to Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement," Financial Accounting Standards Board, December 2, 1976; and IASB, Conceptual Framework, "Chapter 8: Concepts of Capital and Capital Maintenance," 2019.

CHAPTER 5: FINANCIAL STATEMENT FOUNDATIONS

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Background

BC5.01 Chapter 5 of the Conceptual Framework identifies four financial statement foundations:

(a) identifiable reporting entity;

(b) the concept of control;

(c) the unit of measure; and

(d) the basis of accounting.

BC5.02 While these foundations were in the original conceptual framework, PSAB concluded it was important to identify and explain them more clearly and fully. In particular, the Board concluded additional information about the concept of control should be provided.

The Concept of Control

BC5.03 The concept of control permeates the theory underlying the determination of what is included in an entity’s financial statements. As a result, PSAB agreed the general idea and role of control in determining what economic resources and entities are included in the reporting entity’s financial statements should be articulated in the Conceptual Framework. However, the application of control, including the mechanisms of how control works, determining if there is a preponderance of evidence that control exists, and the implications of controlled economic resources and entities for financial statements are articulated at the standards level.

BC5.04 The concept of control is not a new concept; only its articulation in the Conceptual Framework is.

BC5.05 Control is a foundation of financial statements in the Conceptual Framework for the following reasons:

(a) The concept of control helps determine what economic resources should be associated with an entity. This helps to determine the financial position and periodic financial performance of that entity.

(b) The concept of control provides parameters for including some entities and excluding others from a reporting entity's financial statements based on the nature of their relationship with the reporting entity.

BC5.06 When defining "control" in the Conceptual Framework, it was important for the definition to be broad enough to encompass, at a minimum, the definitions of "(unilateral) control" and "shared control" already established in the PSA Handbook at the standards level. As a result, PSAB concluded the concept of control should reflect the common understanding of control as having the existing ability to direct the use of something (i.e., economic resources) with the expected benefits and/or risk of loss accruing to the reporting entity. The Board believes the definition of "control" in GOVERNMENT REPORTING ENTITY, Section PS 1300, and the definition of shared control in INTERESTS IN PARTNERSHIPS, Section PS 3060, fall within the concept of control described in the Conceptual Framework.

BC5.07 In its first attempt to describe control in a broad sense in the Statement of Concepts, PSAB received a significant amount of feedback from stakeholders. Although most agreed that the concept of control should be included and described in the Conceptual Framework, many of these same respondents were concerned with the way it was described. They indicated parts of the description contradicted text in Section PS 1300. As a result, the Board amended the description of control to ensure that the Conceptual Framework would support, build on and not contradict standards in the PSA Handbook. There was never an intent to change the meaning of control in existing standards but merely to explain the function that control plays in associating economic resources, including interests in other entities, with a reporting entity. Only minor editorial amendments at the standards level have been made as a result of the control discussion in the Conceptual Framework. A review of the principles in Section PS 1300 was outside the scope of the project.

BC5.08 The conceptual description of control was also amended to more specifically reflect that the nature of the relationship between:

(a) a reporting entity and another entity; or

(b) a reporting entity and an economic resource

needs to be considered to determine if control exists.

BC5.09 In summary, the Exposure Draft:

(a) provided a conceptual definition of control;

(b) explained control from the perspective of controlling an economic resource and from the perspective of controlling an entity;

(c) described what control is not; and

(d) explained the connection between the rights, powers and abilities of some public sector entities and the concept of control.

BC5.10 Although many respondents to the Exposure Draft noted a significant improvement in the discussion of the concept of control, they expressed concern that paragraph 5.22 of the Exposure Draft continued to contradict Section PS 1300. Paragraph 5.22 spoke to:

(a) the power or right to take control of an entity away from others may exist; and

(b) the notion that 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.

One intent of the paragraph was to speak to the concept of "nationalization". "Nationalization" is not discussed in the PSA Handbook. But it is a unique power of public sector entities as noted in the section titled "Powers, rights and responsibilities" in Chapter 2 of the Conceptual Framework.

BC5.11 To respond to stakeholder concerns, in finalizing Chapter 5 of the Conceptual Framework, PSAB further amended the control discussion in the following ways:

(a) Indicating how control can be acquired. One of the ways control is acquired is through invoking a power or right. Once a power or right is invoked, it may result in the flow of economic benefits to the entity that invoked it or expose that entity to risks of loss. Control of a resource is not considered to be acquired unless the entity invoking the power or right gains coincident access to the future economic benefits and/or is exposed to the risks associated with the resource.

(b) Identifying the sovereign or equivalent powers and rights that are unique to the public sector and their relationship to control. A power or right in and of itself is not an economic resource. An entity having a power or right alone also does not constitute control. A past event or events to acquire control is required. Simply having a power or right does not provide an entity with access to future economic benefits and/or exposure to risks.

(c) Indicating that once control is acquired, a choice by the reporting entity not to exercise control does not negate the existence of control. This is consistent with Section PS 1300. Invoking a power or right to acquire control of an economic resource is different than exercising control previously acquired over an economic resource. A power or right to expropriate resources or nationalize private sector entities may exist for a government or other public sector entity. But until such power or right is invoked, the government or other public sector entity does not acquire control of such economic resources.

Reference to “other entities”

BC5.12 The discussion of the concept of control in the Exposure Draft referred to a reporting entity controlling “economic resources” and “other entities”. Interests in these controlled entities are also considered a reporting entity’s economic resources. As a result, the text has been amended to reflect this.

The term “power”

BC5.13 In Chapter 5 of the Conceptual Framework, the term “power” is used in the context of sovereign or equivalent powers. The “power” to control mentioned in GOVERNMENT REPORTING ENTITY, Section PS 1300, is not a sovereign or equivalent power or right as described in the chapter. As a result, a footnote has been added in the Conceptual Framework to clarify the use of the term. A footnote has also been added to paragraph PS 1300.08, through the consequential amendments, to clarify the use of the term. This consequential amendment is not intended to make changes to Section PS 1300 that change current practice.

Unit of Measure

BC5.14 To address comments received on the Exposure Draft that the “unit of measure” discussion was confusing, amendments were made to clarify the text. The amendments do not change the “unit of measure” foundation.

References to "Economic Resources" and "Economic Obligations"

BC5.15 Chapter 5 of the Conceptual Framework often refers to "economic resources" and "economic obligations". The definitions for these terms are included in Chapter 8, "Elements of Financial Statements," as they are directly linked to the definitions of assets and liabilities.

BC5.16 The Glossary also includes definitions of "economic resources" and "economic obligations".

CHAPTER 6: FINANCIAL STATEMENT OBJECTIVES

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Background

BC6.01 Chapter 6 of the Conceptual Framework identifies the six financial statement objectives. These objectives provide a high-level overview of what should be reported in financial statements. Details of how these objectives are reflected in financial statements are included in FINANCIAL STATEMENT PRESENTATION, Section PS 1202. Section PS 1202 will be published in the PSA Handbook at a later date. However, PSAB considered feedback received on the Exposure Draft of proposed Section PS 1202 in finalizing Chapter 6. Chapter 6 should be read in conjunction with Section PS 1202 once the standard is issued. References to Section PS 1202 have been included to ensure links to the new reporting model are clear.

BC6.02 The following are the main changes made to the financial statement objectives from those set out in FINANCIAL STATEMENT OBJECTIVES, superseded Section PS 1100:

(a) Amended the explanatory material related to each objective to focus on the specific objective and the importance of that objective in meeting the overarching accountability objective of public sector financial reporting. The details explaining what, where and how to report the information necessary to meet those objectives in financial statements were relocated to the financial statement presentation standard (i.e., Section PS 1202).

(b) Amended the explanatory material related to Objective 2 (reporting financial position) to introduce the notion that accountability reporting is improved when the financial statements separately report:

  (i) the significant identifiable sources of an entity’s financial position; and

  (ii) the financial or non-financial nature of both economic resources and economic obligations

(c) Amended the explanatory material related to Objective 3 (reporting changes in financial position) to:

  (i) introduce the notion that some changes in the economic resources or economic obligations in the period are recognized outside of that period’s surplus or deficit; and

  (ii) remove the discussion on requiring the reporting of change in net debt.

(d) Divided Objective 4 (legislative control and government financial accountability) into two objectives:

  (i) comparing actual financial performance with that budgeted (Objective 4); and

  (ii) disclosing non-compliance with financial authorities (Objective 5).

(e) Added Objective 6, which requires disclosing risks and uncertainties that impact financial position or changes in financial position.

Objective 1: Scope of Financial Statements

BC6.03 The objective is substantively the same as Objective 1 in the superseded conceptual framework (FINANCIAL STATEMENT OBJECTIVES, Section PS 1100). It was amended slightly to reflect that an entity's financial statements should also account for the economic obligations it must settle, to achieve internal consistency within the Conceptual Framework.

BC6.04 PSAB decided not to change significantly the financial statement objective for the following reasons:

(a) The issues stakeholders raised that gave rise to the review of the superseded conceptual framework did not deal with the scope of the reporting entity.

(b) The feedback received from various consultations supported the objective.

Objective 2: Reporting Financial Position

BC6.05 The objective was made more general, as compared to the one in the superseded conceptual framework, as reporting financial position includes many things, such as reporting on:

(a) the entity's financial and non-financial assets;[7]

(b) the entity's financial and non-financial liabilities;[8]

(c) the entity's net financial assets or net debt indicator;[9]

(d) the entity's net assets or net liabilities;[10] and

(e) the various sources (or components) of net assets or net liabilities.

Reporting the entity's financial and non-financial liabilities

BC6.06 PSAB reviewed the net financial assets or net debt calculation while developing the Statement of Principles. The Board recognized that the calculation needed to be revisited as it was no longer measuring what it was originally intended to measure. PSAB received feedback that certain items included in the calculation should be excluded. The original calculation was developed when all recognized liabilities would be settled with financial assets. There were no complex liabilities, such as those that now exist related to public private partnership arrangements, some capital transfers and non-financial performance obligations, that needed to be evaluated for inclusion in or exclusion from the calculation.

BC6.07 To ensure the net debt or net financial asset indicator retained its original meaning of future financial resource requirements or financial resources available for the future, PSAB decided to distinguish between financial and non-financial liabilities and exclude non-financial liabilities from the calculation. Examples of non-financial liabilities are found in FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

7 Financial and non-financial assets are referred to as "financial and non-financial resources" in Chapter 6 as the asset element is introduced in Chapter 8 of the Conceptual Framework.

8 Financial and non-financial liabilities are referred to as "financial and non-financial obligations" in Chapter 6 as the liability element is introduced in Chapter 8 of the Conceptual Framework.

9 The net financial assets or net debt indicator is referred to as "net financial resources or net financial obligations" in Chapter 6 as the elements are introduced in Chapter 8 of the Conceptual Framework.

10 The net assets or net liabilities indicator is referred to as "financial position" in Chapter 6 as the elements are introduced in Chapter 8 of the Conceptual Framework.

Reporting on net debt or net financial assets

BC6.08 Some respondents were concerned that the former requirement to report net debt or net financial assets was removed from the financial position objective. Presenting information to determine net debt or net financial assets continues to be in the description underlying the objective (paragraph 6.21). As such, the requirement to report net debt or net financial assets has not been removed.

BC6.09 Respondents raised other issues relating to net debt, such as how it is calculated or its applicability to all public sector entities. Such issues are discussed in the Basis for Conclusions accompanying FINANCIAL STATEMENT PRESENTATION, Section PS 1202, as they are presentation rather than conceptual issues.

Renaming "net debt"

BC6.10 The terms "net financial resources" or "net financial obligations" are used in Chapter 6 of the Conceptual Framework because the elements are introduced in Chapter 8 of the Conceptual Framework. These phrases are not meant to replace the terms "net financial assets" or "net debt". Any change in terminology for financial statement indicators is discussed in the Basis for Conclusions accompanying Section PS 1202.

Reporting on the various sources (or components) of net assets or net liabilities

BC6.11 In Chapter 6 of the Conceptual Framework, PSAB introduced the notion of separately reporting significant identifiable sources (or components) of net assets or net liabilities (paragraph 6.20). This is consistent with PSAB's reporting model in FINANCIAL STATEMENT PRESENTATION, Section PS 1201, in which the net assets or net liabilities position consisted of two sources (or components):

(a) the accumulation of past surpluses and deficits; and

(b) the accumulation of unrealized remeasurements.

BC6.12 Accounting theory for a stewardship-focused model substantiates distinguishing unrealized remeasurements from financial performance arising from replicable operating activities. This reflects an accountability emphasis on realized performance and the greater uncertainty associated with unrealized performance. This theory supports the approach taken in the reporting model in Section PS 1201, but was not explained in the superseded conceptual framework.

BC6.13 PSAB may identify other sources (or components) of net assets or net liabilities at the standards level if such identification better serves the accountability objective.

BC6.14 PSAB identifying further components is a practical choice to establish an aspirational reporting model. For example, it may be appropriate in a stewardship-focused model to exclude from surplus or deficit the initial recognition of items that will be held solely for stewardship purposes such as heritage items, natural capital and perhaps endowments restricted in perpetuity.

Objective 3: Reporting Changes in Financial Position

BC6.15 The objective in FINANCIAL STATEMENT OBJECTIVES, superseded Section PS 1100, focused on three types of changes in financial position:

(a) the change in net assets or net liabilities;

(b) the change in net financial assets or net debt; and

(c) the change in cash.

BC6.16 The revised objective focuses on the change in net assets or net liabilities and the change in cash flow. The change in net financial assets or net debt has been removed from the objective. A discussion that some changes in financial position arising in the period are recognized outside of that period's surplus or deficit has been added.

Reporting the reasons for the change in net debt or net financial assets

BC6.17 Past feedback related to the statement of change in net debt or net financial assets indicated that this statement was seen by many as merely an accounting reconciliation that did not add much value because it was not easily understood. Based on this feedback, PSAB considered how the statement could be changed to make the reconciliation more understandable. After much reflection, in the Statement of Principles, the Board proposed to remove the requirement to present the statement of change in net debt or net financial assets. As a result of that decision, the focus on the change in net financial assets or net debt was removed from the financial statement objective. The majority of respondents agreed with this proposal. However, some respondents provided important feedback on some of the benefits of the statement. This feedback was considered from a reporting model perspective, in developing FINANCIAL STATEMENT PRESENTATION, Section PS 1202. The Board decided that the presentation of the change in net financial assets or net debt would be optional as long as the information presented is understandable and useful for accountability purposes. More information regarding this option is included in Section PS 1202.

Reporting some changes in net financial position outside of that period's surplus or deficit

BC6.18 The explanatory material following the objective alludes to the fact that some changes in an entity's net financial position in the period are recognized outside of that period's surplus or deficit. Reporting an item outside of that period's surplus or deficit would be based on an evaluation by PSAB that such reporting better contributes to meeting the accountability objective. Reporting outside of a period's surplus or deficit would not be a common occurrence. Most of an entity's raising and use of resources in the period would be recognized in that period's surplus or deficit.

BC6.19 Only items that PSAB approves in standards pursuant to the due process can be reported outside of that period's surplus or deficit. For example, the reporting model in FINANCIAL STATEMENT PRESENTATION, Section PS 1201, required unrealized remeasurements arising in a period related to financial instruments measured at fair value to be recognized outside of the surplus or deficit of the period.

Former Objective 4: Legislative Control and Financial Accountability

BC6.20 There was significant support for dividing Objective 4 in FINANCIAL STATEMENT OBJECTIVES, superseded Section PS 1100, into two separate financial statement objectives because it deals with two separate matters:

(a) comparing actual financial performance with that budgeted; and

(b) demonstrating whether the entity administered its financial affairs, economic resources and economic obligations in accordance with the requirements and limits established by the appropriate financial authorities.

Objective 4: Comparing Actual Financial Performance to That Budgeted

BC6.21 Some respondents expressed three concerns:

(a) the objective should not be applicable to all public sector entities;

(b) amended budgets should not be permitted; and

(c) lack of clarity regarding the presentation of the budget requirements.

Applicability of the budget objective to all public sector entities

BC6.22 The actual-to-budget comparison provides key accountability information about an entity's financial performance as reported in financial statements in achieving its financial objectives as outlined in the budget. It is considered a crucial aspect of the accountability cycle. All public sector entities should be held accountable for compliance with, and performance against, their budget, regardless of how the entity obtains its funds. Accountability must be demonstrated for the use of public funds received as well as for the use of all other types of funding. PSAB reconfirmed its support for this important objective and considers it appropriate for all public sector entities. Refer to Chapter 2, paragraphs 2.27-2.33 of the Conceptual Framework for an expanded discussion on the importance of the budget.

BC6.23 A group of respondents noted that the accountability of funding received is related to outcomes, not an actual-to-budget comparison. PSAB is of the view that the need to evaluate outcomes against funding does not negate the need for an actual-to-budget comparison. Outcome evaluation can be layered on top of the actual-to-budget comparison.

Using an amended budget

BC6.24 The Conceptual Framework emphasizes using the original approved budget to compare with actuals. This is consistent with the superseded conceptual framework. However, there may be rare circumstances in which there is new governance (i.e., new legislature, new council or, for government organizations, a new board) that approves a new budget part way through a fiscal year. In such cases, the new approved budget may be more useful for accountability purposes.

BC6.25 At the standards level in FINANCIAL STATEMENT PRESENTATION, Section PS 1202, PSAB describes the circumstances in which an approved amended budget may be used.

BC6.26 An amended budget is a new budget approved by new governance. It is different from forecasts updated over the course of the year. An amended budget must be approved by the appropriate authority or authorities, such as the new legislature or council. This is the crucial distinction between a budget (original or amended) and a forecast updated over the course of the year.

Clarity on the budget requirements

BC6.27 Paragraph 6.28 of the Conceptual Framework states:

> Financial statements should provide a comparison of the actual financial performance, as reported in financial statements, to that budgeted. Accountability regarding actual financial performance in comparison with the budget is best served when the approved budget uses the same basis of accounting, follows the same accounting principles, is for the same scope of activities and uses the same classifications as the financial statements.

BC6.28 Objective 4 is aspirational. It does not mandate how public sector entities should budget. It is important to note that PSAB does not set standards for the budget. Budgets are policy documents.

BC6.29 The relevant requirements to meet Objective 4 in financial statements are set out in FINANCIAL STATEMENT PRESENTATION, Section PS 1202. These requirements relate to the budget that is presented for comparison purposes with actual amounts on the financial statements. For financial statement purposes, in order to do an apples-to-apples comparison for users, the budget amounts presented on the statement of operations need to use the same basis of accounting, principles, scope and classification as the actual numbers presented on the statement of operations. However, public sector entities may not budget for the same reporting entity (scope) or on the same accounting basis, principles or classifications as the financial statements.

BC6.30 So, when the basis of accounting, principles, scope or classifications used in the budget is different from that used for the financial statements, Section PS 1202 requires the budget amounts to be restated when being presented for comparison purposes in the financial statements. The restated amounts would be identified and reported as such on the face of the statement of operations. To calculate the budget numbers for comparison purposes, public sector entities can modify or add together approved budgets or approved budget amounts for entities comprising the reporting entity so approved budget amounts can be presented in the financial statements for the same reporting entity and on the same basis as actual amounts. Note disclosure or a schedule would reconcile the restated budget numbers back to those approved in the original budget. These are substantially the same budget presentation requirements as in FINANCIAL STATEMENT PRESENTATION, Section PS 1201, and are consistent with current practice.

Objective 5: Disclosing Non-compliance with Financial Authorities

BC6.31 PSAB recognizes that:

(a) there are many authorities; and

(b) compliance against all these authorities cannot be reflected in financial statements.

BC6.32 The intent of Objective 5 is to consider solely non-compliance with financial authorities in relation to revenue, borrowing, investing, expense and expenditure limits. This is the same intention as that of Objective 4 in FINANCIAL STATEMENT OBJECTIVES, superseded Section PS 1100. The intent is not to make Objective 5 broader or to require disclosures additional to those required in superseded Section PS 1100.

BC6.33 Respondents:

(a) wanted further information or guidance related to the objective;

(b) wondered how the concept of materiality applies to the objective; and

(c) requested information as to how the objective can be applied by Indigenous governments.

Further guidance related to the objective

BC6.34 The objective is meant to foreshadow what would be presented in the financial statements. FINANCIAL STATEMENT PRESENTATION, Section PS 1201, outlines requirements related to the objective. Similar requirements have been brought forward to FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

Concept of materiality

BC6.35 The objective is intended to apply to material non-compliance with financial authorities. General guidance on materiality exists in Chapter 7 of the Conceptual Framework and in the "Introduction to the Public Sector Accounting Handbook."[11]

Consideration of Indigenous governments

BC6.36 Guidance on how the objective applies to Indigenous governments is included in FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

Objective 6: Disclosing Risks and Uncertainties

BC6.37 Meeting Objective 6 requires disclosures about risks and uncertainties that could affect an entity's financial position or changes in financial position as reported in its financial statements. The assertion is that financial statements that are comprehensive and respond to the accountability objective require presenting the risks and uncertainties to which an entity is exposed.

BC6.38 One reason for introducing Objective 6 is to ensure the Conceptual Framework, specifically the financial statement objectives, explains the link between disclosing risks and uncertainties and meeting the accountability objective. The financial statement objectives in FINANCIAL STATEMENT OBJECTIVES, superseded Section PS 1100, did not capture this aspect of accountability. The Conceptual Framework is also aspirational and long lasting and considers future risks and uncertainties not currently dealt with in the standards.

BC6.39 Various standards in the PSA Handbook (e.g., FINANCIAL INSTRUMENTS, Section PS 3450, and CONTINGENT LIABILITIES, Section PS 3300) require the disclosure of risks and uncertainties. Complying with this financial statement objective is limited to disclosing those risks and uncertainties that could affect an entity's financial position or changes in financial position.

11 As part of the consequential amendments it approved at the same time as the Conceptual Framework, PSAB renamed the "Introduction to Public Sector Accounting Standards" as "Introduction to the Public Sector Handbook." This is because the Introduction applies to both the Conceptual Framework and the standards.

It is not intended to require disclosure of those risks and uncertainties that are better suited for disclosure outside the financial statements; for example, in an entity's Financial Statement Discussion and Analysis (FSD&A).[12]

BC6.40 For the time being, PSAB does not intend to add requirements in addition to those currently in the PSA Handbook (e.g., the financial risks reflected in Section PS 3450, or the uncertainty reflected in Section PS 3300). However, in the future, the objective may lead to the Board requiring additional risk and uncertainty disclosures that would be detailed at the standards level (i.e., in a standard that is being developed). Decisions with respect to additional requirements would only be made following the appropriate due process.

BC6.41 A few respondents noted that the objective may lead to information overload in the future. Information overload is a serious concern that many standard setters, including PSAB, specifically contemplate in their work. As it develops standards in the future that may require the disclosure of certain risks and uncertainties, the Board will determine if the disclosures provide additional accountability value for users. Presentation concepts and techniques described in Chapter 10 of the Conceptual Framework could help in organizing the disclosures to ensure they are understandable and at the right level to provide accountability.

Guidance in relation to the objective

BC6.42 The purpose of this objective, and all the other financial statement objectives, is to foreshadow what would be reported in financial statements. As a result, all financial statement objectives will appear broad. The intent is to allow the Conceptual Framework, of which the financial statement objectives form part, to be aspirational and long lasting. However, the details of how the objective would be met is provided in the various standards in the PSA Handbook.

Development of risk disclosure requirements related to natural assets and the "infrastructure gap"

BC6.43 Many respondents encouraged PSAB to develop risk disclosure requirements related to natural assets.[13] Others encouraged development of risk disclosures related to the "infrastructure gap".

BC6.44 The development of risk disclosures in addition to what is currently in the PSA Handbook is outside the scope of the Concepts Underlying Financial Performance project. However, during the project, PSAB has been monitoring the work being done internationally with respect to the accounting and disclosure of natural resources. PSAB has been actively involved in this area as it understands that it is an important topic for Canadian stakeholders.

12 The main objective of an FSD&A is to clearly explain and highlight information underlying the statements of financial position and changes in financial position as presented. FSD&A information includes narrative explanations and graphical illustrations highlighting the key relationships that exist among the quantitative representations set out in the financial statements, as well as explanations and illustrations of variances and trends. Refer to SORP-1, *Financial Statement Discussion and Analysis*, for guidance in reporting FSD&A. SORPs are non-authoritative pronouncements.

13 Purchased natural resources are allowed to be recognized under existing GAAP if they meet the definition of an asset and the general recognition criteria. Non-purchased natural resources are excluded from recognition in financial statements.

BC6.45 Statement of Recommended Practice (SORP) 3, ASSESSMENT OF TANGIBLE CAPITAL ASSETS,[14] provides general guidance for those entities that choose to report on the physical condition of their tangible capital assets and provide information outside financial statements that is useful for identifying the risks related to an “infrastructure gap”.

PSAB’s International Strategy and Setting of Future Standards

BC6.46 The IPSASB does not include a section on financial statement objectives in its conceptual framework.

BC6.47 Articulating the financial statement objectives within a conceptual framework is unique to PSAB and has roots in how the Public Sector Accounting and Auditing Committee (PSAAC)[15] originally built consensus on what financial statements should report. The Board believes there is merit in articulating the financial statement objectives. They flow from and are consistent with the broad accountabilities for public sector financial reporting set out in Chapter 3 of the Conceptual Framework. They provide the basis for determining the principles for the reporting model and the focus of each statement, or “indicators”, to be reported on each statement.

BC6.48 The impact of this difference is that PSAB’s Conceptual Framework provides the conceptual foundation for the Board’s reporting model. As a result, when looking at an IPSAS to leverage, the Board would also consider the impact on its reporting model. The Basis for Conclusions accompanying FINANCIAL STATEMENT PRESENTATION, Section PS 1202, provides a high-level review of how PSAB’s and the IPSASB’s reporting models differ.

14 PSAB issues SORPs with respect to matters of reporting supplementary information beyond that presented in financial statements, after following a due process. SORPs represent reporting practices that are encouraged but not mandatory or prescriptive.

15 In 1981, the Canadian Institute of Chartered Accountants established PSAAC after consulting with senior government stakeholders who saw the need for a comparable and consistent approach to financial reporting by Canadian governments. In 1993, PSAAC was renamed Public Sector Accounting and Auditing Board (PSAAB), a standard-setting board. In 1999, PSAAB was renamed PSAB when responsibility for public sector auditing and assurance standards was transferred to the Auditing and Assurance Standards Board.

CHAPTER 7: FINANCIAL STATEMENT INFORMATION: QUALITATIVE CHARACTERISTICS AND RELATED CONSIDERATIONS

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Background

BC7.01 Chapter 7 of the Conceptual Framework focuses on the qualitative characteristics of financial information (relevance, faithful representation, verifiability, comparability, understandability and timeliness) and the related considerations for including information in financial statements (benefit versus cost, materiality and prudence).

BC7.02 PSAB’s intent with developing Chapter 7 was to clarify the qualitative characteristics to be more transparent and better oriented to the accountability needs of public sector users. The guidance provided aims to ensure that the practical realities are considered when applying the qualitative characteristics and related considerations.

BC7.03 There was significant support for Chapter 7. Many respondents felt that the description of the qualitative characteristics and related considerations was an improvement over that in the superseded conceptual framework.

Comparing the Conceptual Framework with the Superseded

BC7.04 The major changes made to the qualitative characteristics and related considerations in the Conceptual Framework in comparison to the ones in the former include:

(a) replacing “reliability” with “faithful representation”;

(b) removing “conservatism” as an aspect of a qualitative characteristic and adding “prudence” as a related consideration;

(c) identifying “verifiability” and “timeliness” as separate qualitative characteristics;

(d) explaining the application of “comparability” in the public sector, with specific reference to actual-to-budget comparisons;

(e) emphasizing the “understandability” qualitative characteristic;

(f) adding “materiality” and “prudence” as additional considerations when applying the qualitative characteristics; and

(g) removing “accountability value” as an aspect of relevance.

BC7.05 Although the term “trade-off” is not used in Chapter 7, the concept is retained. FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.32, stated the following in relation to “trade-off”: “In practice, a trade-off between qualitative characteristics is often necessary... Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.” The last two sentences of superseded paragraph PS 1000.32 have been retained and included in paragraph 7.34.

Why replace “reliability” with “faithful representation”

BC7.06 The superseded conceptual framework listed reliability as a qualitative characteristic. Reliability had the following characteristics:

(a) representational faithfulness;

(b) completeness;

(c) neutrality;

(d) conservatism; and

(e) verifiability.

Both completeness and neutrality refer to faithful representation.

BC7.07 PSAB considered two options with respect to this qualitative characteristic:

(a) keep “reliability” as is; or

(b) replace “reliability” with “faithful representation”.

Work conducted by other standard setters informed the decision to replace “reliability” with “faithful representation”.

BC7.08 The research of other standard setters, such as the International Accounting Standards

Board (IASB) and the IPSASB, indicates that faithful representation is easier to understand and apply than reliability. Reliability is sometimes confused with verifiability or narrowly interpreted to mean precision. The intent of the qualitative characteristic of faithful representation is to ensure that the information provided in financial statements reflects as faithfully, completely, neutrally and accurately as possible the economic substance of an economic resource, economic obligation, transaction or other event, because these attributes best contribute to the accountability value of the related information.

BC7.09 As a result, PSAB concluded that "faithful representation" would better accomplish the intent of the characteristic than would "reliability".

BC7.10 A concern was expressed to IPSASB during its Conceptual Framework project that the choice of "faithful representation" over "reliability" implies the adoption of fair value or market value accounting. However, like the IPSASB, PSAB does not intend that the use of "faithful representation" or "reliability" to describe a qualitative characteristic in the Conceptual Framework will determine the measurement attribute to be used in financial statements, whether historical cost, fair value or any other.

Why remove "conservatism" as an aspect of a qualitative characteristic

BC7.11 The superseded conceptual framework included conservatism as an aspect of the qualitative characteristic "reliability". The related guidance indicated that conservatism does not encompass the deliberate understatement of revenues and assets or the deliberate overstatement of liabilities and expenses. Although this description of conservatism may sound like it advocates neutrality, in practice, conservatism tends to mean a preference that possible errors in measurement be in the direction of an understatement of revenues and assets and an overstatement of liabilities and expenses. This application introduces a bias into financial statements that conflicts with the neutrality aspect of faithful representation.

BC7.12 The explanatory guidance for neutrality emphasizes freedom from bias in information reported and indicates that incomplete financial statements are biased, as are financial statements that include assets, liabilities, revenues or expenses that are deliberately understated or overstated or in which accounting principles have been chosen with a particular result or the interests of particular users in mind.

BC7.13 Financial statements that are biased in any way encourage deliberate understatement or overstatement of results and may be seen to provide less accountability. Neutrality is an aspect of financial statement reporting that seeks to provide effective and credible accountability. Adopting a practice of neutrality when making estimates in financial statements is an appropriate and defensible approach for public sector entities because they face public scrutiny of their results.

BC7.14 PSAB resolved the conflict between neutrality and conservatism through:

(a) the removal of "conservatism" as an explicit component of a qualitative characteristic; and

(b) the emphasis on neutrality as a component of faithful representation.

BC7.15 Although the concept of conservatism is removed as an aspect of a qualitative characteristic, PSAB introduced the concept of prudence as a consideration in applying the qualitative characteristics in determining the nature and extent of the information to be included in financial statements. Refer to the section "Why 'materiality' and 'prudence' are considerations" for more information.

BC7.16 A few respondents wondered what the implication of removing conservatism would be on certain standards in the PSA Handbook. Although the conservatism concept was considered in the development of some standards (such as CONTINGENT LIABILITIES, Section PS 3300, and CONTINGENT ASSETS, Section PS 3320), removing the term would not lead to an amendment to these standards. During the development of the standards, PSAB made its decisions based on whether the information that is required from the standard would improve accountability, considering all the qualitative characteristics and element definitions.

Why identify “verifiability” and “timeliness” as separate qualitative characteristics

Verifiability

BC7.17 The superseded conceptual framework identified verifiability as a component of reliability. However, in practice, information may be verifiable without actually being reliable. For example, in relation to measurement, verifiability focuses primarily on the correct application of a basis of measurement rather than its appropriateness.

BC7.18 In the Conceptual Framework, PSAB replaced “reliability” with “faithful representation”. While closely linked to faithful representation, the Board thinks that verifiability is separate from faithful representation because:

(a) information may faithfully represent economic resources, economic obligations, transactions and other events even though it cannot be verified; or

(b) information may be verifiable without faithfully representing the economic resource, economic obligation, transaction and other event that it purports to represent.

As a result, verifiability is identified as a separate qualitative characteristic.

Timeliness

BC7.19 The superseded conceptual framework identified timeliness as a component of relevance. In the Conceptual Framework, PSAB decided to elevate timeliness as a separate qualitative characteristic:

(a) Timeliness is different from the other components of relevance. Whereas something that has predictive value or confirmatory value is relevant, information can be reported in a timely manner and have no relevance at all, or information can be delayed in reporting and still be relevant.

(b) Timeliness is linked to other qualitative characteristics, not just relevance. For example, timely information is useful if it is relevant and faithfully represented.

BC7.20 To hold an entity accountable, a user requires timely information.

Why identify an additional aspect of comparability specific to the public sector

BC7.21 Respondents to the various documents for comment specified the significance of the budget and the importance of the comparison of actual performance against the budget to the accountability cycle in the public sector. To emphasize this importance, PSAB added this aspect to the comparability qualitative characteristic. The intent is that this fundamental part of the accountability cycle is emphasized throughout the Conceptual Framework.

Why emphasize "understandability"

BC7.22 The superseded conceptual framework identified understandability (and clear presentation) as a separate qualitative characteristic of information to be included in financial statements. However, understandability was not given much profile. Accountability is best achieved when those to whom an entity is accountable understand the financial statement information provided to them. The information presented might be relevant to achieving accountability or relevant to decision making, but unless it is understood, it cannot be used for those purposes. Ideally, public accountability means that the public understands what is being reported and can assess the extent to which accountability has been achieved, perhaps with some help. This "understandability imperative" is inextricably linked to the accountability objective. As a result, PSAB's intent is to encourage greater understandability of financial statement information for users. Consequently, further emphasis is placed on the understandability characteristic in the Conceptual Framework as compared to the superseded conceptual framework.

Why "materiality" and "prudence" are considerations

Materiality

BC7.23 PSAB concluded that materiality is not only an aspect of a qualitative characteristic. It has a more pervasive role. Materiality relates to, and can impact, several qualitative characteristics of information included in the financial statements. An item's materiality would be considered when determining whether the omission, misstatement or obscuring of information related to the item could undermine not only relevance, but also the faithful representation, understandability or verifiability of financial information presented in the financial statements.

Prudence

BC7.24 Work by international standard setters has partly informed the decision to introduce prudence. They linked prudence with making unbiased estimates, since exercising prudence means not deliberately overstating or understating assets, revenues, liabilities or expenses. As a result, they have indicated that prudence is a factor in faithfully representing economic resources, economic obligations, transactions and other events.

BC7.25 After careful consideration, PSAB concluded the concept of prudence has two aspects to it:

(a) Prudence is the exercise of caution when making judgments under conditions of uncertainty.

(b) Prudence is inherent in the application of professional judgment in determining the nature and extent of information to be provided in financial statements to meet the overarching accountability objective and the objectives of financial statements.

BC7.26 Prudence is more than just ensuring unbiased estimates. PSAB judged prudence to be integral to the professional state of mind of accounting and assurance practitioners rather than merely a quality of financial information. Prudence is an orientation that underlies the Conceptual Framework and the PSA Handbook. For example, it is woven into the definitions of the elements, the general recognition and measurement concepts in the framework, and the principles found in individual standards. Prudence is inherent in the application of professional judgment. As a result, the Board concluded that prudence should be a consideration in applying the qualitative characteristics when determining the nature and extent of information to be included in financial statements, rather than a component of a qualitative characteristic.

Why remove "accountability value" as an aspect of relevance

BC7.27 Accountability is the underlying theme of the Conceptual Framework and the overarching objective of public sector financial reporting. As a result, accountability is broader than just a component of a qualitative characteristic. For this reason, accountability value was not retained from the superseded conceptual framework as a component of relevance.

No Explicit Order of Application of the Qualitative Characteristics

BC7.28 When reviewing the qualitative characteristics, PSAB considered whether some characteristics should be identified as fundamental and others as enhancing. The Board also considered whether an order of application of the characteristics should be identified and explained.

BC7.29 PSAB concluded that all the qualitative characteristics are important and contribute to the information's usefulness to the public for accountability purposes. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to specify a fixed sequence of their application.

Distinction between Conservatism and Prudence

BC7.30 FINANCIAL STATEMENT CONCEPTS, superseded paragraph PS 1000.29(d), stated that

> estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

BC7.31 Although this description of conservatism may sound like it advocates neutrality, in practice, conservatism tends to mean a preference for an understatement rather than overstatement of revenues and assets and an overstatement rather than an understatement of liabilities and expenses. This application introduces a bias into financial statements that conflicts with the neutrality aspect of faithful representation (i.e., often called the practice of "conservative accounting").

BC7.32 Exercising prudence means not overstating or understating assets, liabilities, revenues and expenses. Prudence attempts to emphasize neutrality by avoiding the dangers of an optimistic bias, and equally the damaging implications of a negative bias. The concept of neutrality is supported by the exercise of prudence.

BC7.33 Further, as set out in paragraph BC7.26, prudence is considered to be a state of mind and orientation broader than a qualitative characteristic of financial information; conservatism is a narrower concept, potentially more biased in application.

CHAPTER 8: ELEMENTS OF FINANCIAL STATEMENTS

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Background

BC8.01 Chapter 8 of the Conceptual Framework identifies and defines the elements of financial statements:

(a) assets;

(b) liabilities;

(c) revenues; and

(d) expenses.

BC8.02 PSAB proposed improvements to the asset, liability, revenue and expense definitions, including making them singular and adopting a parallel structure. There was significant support from respondents for the proposed definitions.

BC8.03 PSAB also confirmed the following:

(a) Only economic resources and economic obligations and changes in respect of these items are reported in an entity's financial statements.

(b) Net assets or net liabilities is a residual amount, not an element.

(c) Deferred inflows and deferred outflows that do not meet the definition of an asset or liability are not recognized in the financial statements.

(d) "Other resources" and "other obligations" are not concepts in the Conceptual Framework. The understandability imperative that flows from the accountability objective supports an approach that reports financial position as comprising only assets and liabilities, terms the public understands.

BC8.04 PSAB has relocated the definitions of financial assets and tangible capital assets to the financial statement presentation standard. These are categories of assets, not elements of financial statements.

Why Deferrals Are Not Elements

BC8.05 PSAB considered deferrals in response to some stakeholder concerns. In considering deferrals, the Board identified three options:

(a) defining deferred inflows and deferred outflows as separate elements;

(b) broadening the asset and liability definitions to include items that are deferrals; or

(c) not including deferred inflows and deferred outflows in the Conceptual Framework.

BC8.06 Consultation Paper 2 requested feedback on some of these options by proposing three possible reporting models (i.e., the asset and liability model, the revenue and expense model and a hybrid model). Specifically, both the revenue and expense and the hybrid models introduced the concept of deferred inflows and deferred outflows. The revenue and expense model defined them as elements and the hybrid model identified them as components of net assets or net liabilities. The option of exploring broader asset and liability definitions to include items that are deferrals was not pursued. It was considered important for the definitions to be substantially consistent with those used by other standard setters.

BC8.07 Of the three reporting models illustrated in Consultation Paper 2, a majority of respondents endorsed an asset and liability–based model. However, even some who indicated that they prefer an asset and liability–based model noted that the asset and liability definitions themselves or other aspects of the reporting model should allow some deferral (matching), in particular, in relation to transfers received. It should also be noted that the responses at the provincial government level were mixed in relation to the reporting model alternatives, while responses at the local and federal government levels strongly supported an asset and liability–based model.

BC8.08 Most respondents did not endorse the revenue and expense model for various reasons, including:

(a) it is difficult to develop a solid, objective and consistent basis for deferring inflows and outflows to future periods;

(b) the public understands assets and liabilities and changes in them (revenue and expense); and

(c) accounting creations like deferrals would confuse the accountability for financial position and periodic financial performance provided through the financial statements.

BC8.09 There was also very little support for the hybrid model as it was considered too complex and, therefore, would detract from the understandability of the financial statements.

BC8.10 The public and its elected or appointed representatives understand assets and liabilities. They hold assets and liabilities themselves in the form of cars, investments, houses, mortgages and credit card debt. They can be exposed to foreign currency risk, such as when they take vacations abroad, and are familiar with changes in their investment portfolio resulting from market valuations. They also understand what the changes in assets and liabilities mean. Since financial statements are prepared for the public and its elected or appointed representatives, they will therefore be more understandable to those users when the financial position and periodic financial performance of an entity is reported in terms of assets, liabilities and changes in them.

BC8.11 Under an asset and liability–based model, the elements of financial statements are limited to assets and liabilities and changes in them (revenue and expense). Their nature can be understood and explained and, therefore, they can be effectively employed for providing accountability information to the public and its elected or appointed representatives.

BC8.12 The understandability imperative that flows from the accountability objective supports an approach that reports financial position and periodic financial performance in terms that the public already understands. Accountability is not achieved when those to whom an entity is accountable cannot understand the financial statement information provided to them.

BC8.13 An entity's finances are more complex than those of individuals. Entities do things that individuals do not. So, entities cannot and should not recognize only items that resemble those of an individual. However, to improve accountability, entities should represent and explain their financial position and periodic financial performance using building blocks that are familiar to the public, such as assets, liabilities and changes in them.

BC8.14 PSAB concluded that deferred inflows and deferred outflows that do not meet the definition of an asset or liability should not be recognized in financial statements. However, the Board acknowledges in Chapter 6 of the Conceptual Framework that certain circumstances, as identified and approved by PSAB, may require a different accountability approach. For example, certain aspects of changes in financial position that arise in a period may require separate accountability and, as a result, may require reporting outside of that period's surplus or deficit, directly in a component of net assets or net liabilities. The Board felt that this approach would better contribute to public understanding of financial position as comprised solely of assets and liabilities. The Board concluded that this approach is a question of presentation on the financial statements rather than a question of introducing new elements. As the objective of Chapter 8 is to define the elements, the presentation of the elements in financial statements is discussed in FINANCIAL STATEMENT PRESENTATION, Section PS 1202.[16]

Why Net Assets or Net Liabilities Is a Residual Amount Rather Than an Element

BC8.15 In determining whether net assets or net liabilities should be defined as an element, several options were considered:

(a) Retaining the PSA Handbook status quo. This approach means that there would be no net assets or net liabilities element.

(b) Not defining net assets or net liabilities as an element but defining ownership contributions and ownership distributions, which are subclassifications of net financial position, as elements. The IPSASB takes this approach.

(c) Defining net assets or net liabilities as an element that is a residual amount but includes an ownership interest. Part III of the CPA Canada Handbook – Accounting, Accounting Standards for Not-for-Profit Organizations, takes this approach.

(d) Defining one or more components of net assets or net liabilities as elements.

(e) Having different alternatives for governments and government organizations tailored to the type of accountability that the users of financial statements require. For example, the users of the financial statements of government organizations using not-for-profit accounting may expect additional accountability for resource flows unique to that type of organization.

BC8.16 PSAB decided to retain the status quo for the following reasons:

(a) Net assets or net liabilities is a residual amount, calculated as the difference between two types of elements: assets and liabilities. It is also a residual because it results solely from the accumulated difference between the revenues and expenses of the past.[17]

(b) Ownership interests are rare or minimal in the Canadian public sector (see Chapter 2 of the Conceptual Framework,). The existence of rare ownership interests should not drive the development of concepts (i.e., elements) in the Conceptual Framework.

(c) Defining one or more components of net assets or net liabilities as elements contradicts the idea of elements as the most basic building blocks of financial statements. Elements may have subcategories (e.g., financial and non-financial assets), but elements cannot be subcategories of something else.

(d) PSAB concluded that there should be one Conceptual Framework and a benchmark

16 Section PS 1202 will be published into the PSA Handbook at a later date.

17 The exception to this is if an entity has share capital. Then the residual would also include changes in share capital, which are rare in the public sector.

set of accounting and financial reporting standards (i.e., GAAP) set out in the PSA Handbook. Any customization from this benchmark for particular types or sizes of public sector entities would be a separate decision of the Board. These core requirements would not restrict an entity from providing supplemental presentations and disclosures to meet its stakeholders' additional accountability needs. Chapter 10 of the Conceptual Framework, "Presentation Concepts for Financial Statements," provides the criteria to consider when determining whether supplemental presentations and disclosures are appropriate. For example, entities that determine that a supplemental breakdown of net assets or net liabilities (i.e., in addition to that required by FINANCIAL STATEMENT PRESENTATION, Section PS 1202) is necessary for the entity to meet management needs or other accountabilities would have the option to provide such a breakdown in the notes.

BC8.17 Defined as, or considered, a residual amount does not mean that net assets or net liabilities is meaningless. It provides a measure of the net economic resources available to, or owing by, an entity at a point in time. It is a measure of the entity's financial position at a point in time that provides information useful in evaluating the financial sustainability of the entity and its ability to serve the public in the future.

BC8.18 Even though net assets or net liabilities is not an element, PSAB can still divide it into components, as a residual can be made up of various parts. The various components help users understand the nature of net assets or net liabilities.

BC8.19 Even though neither net assets nor net liabilities is an element, PSAB can recognize certain revenues and expenses directly in a component of net assets or net liabilities. If net assets or net liabilities was an element, then the reporting model would not theoretically work. Elements may have subcategories (e.g., financial and non-financial assets), but as the most basic building blocks, elements cannot be subcategories themselves.

Consideration of "Other Resources" and "Other Obligations"

BC8.20 In developing the Conceptual Framework, PSAB reviewed IPSASB's conceptual framework. IPSASB introduced "other resources" and "other obligations" as categories forming part of an entity's financial position. PSAB chose not to adopt these categories. The Board concluded the understandability imperative that flows from the accountability objective in the Canadian Conceptual Framework supports an approach that reports financial position and periodic financial performance in terms that the public already understands; that is, assets, liabilities and changes in them.

BC8.21 However, PSAB is incorporating the concept of direct recognition of revenue or expense in components of net assets or net liabilities, as indicated in paragraph 6.25 of the Conceptual Framework. The Board felt this approach responds to the same issues that prompted the IPSASB to create the "other resources" and "other obligations" categories; the need for tools to address complex accounting issues. PSAB felt this approach would better contribute to public understanding of financial position as comprised solely of assets and liabilities, while still acknowledging that some revenue and expense of an accounting period might be recognized outside of the surplus or deficit of the period.

Obligations Related to Inflows for Capital Purposes

BC8.22 A few respondents were concerned that the elements would not allow appropriate accounting for obligations related to inflows for capital purposes. PSAB is of the view that the categorization of liabilities between financial and non-financial (introduced in Chapter 6 of the Conceptual Framework) may help with understanding the accounting for inflows for capital purposes. Certain inflows for capital purposes would give rise to non-financial liabilities if the obligations are not expected to be settled through the use of financial assets. More information on this conclusion can be found in the Basis for Conclusions for FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

BC8.23 The accounting for inflows for capital purposes can be found in:

(a) RESTRICTED ASSETS AND REVENUES, Section PS 3100, for inflows to buy or build a tangible capital asset received from individuals or entities other than a government, government component or government organization;

(b) GOVERNMENT TRANSFERS, Section PS 3410; and

(c) CONTRIBUTIONS – REVENUE RECOGNITION, Section PS 4210, for those entities applying the PS 4200 series of the PSA Handbook.

As a result, the accounting for obligations related to the inflows for capital purposes is a standards-level issue and so is outside the scope of the Concepts Underlying Financial Performance project. PSAB reviewed the implementation challenges related to Section PS 3410 in 2016.

Review of Section PS 3410

BC8.24 PSAB recognized the need to review GOVERNMENT TRANSFERS, Section PS 3410, and the accounting for capital transfers based on the feedback it had received since the issuance of the standard. In November 2014, the Board issued the Request for Information, “Post-implementation Review: Section PS 3410, Government Transfers.” In April 2016, the Board issued the Feedback Statement that summarized its findings.

BC8.25 The Feedback Statement noted that the most contentious issue raised was recipient accounting for capital transfers. Section PS 3410 requires that transfer revenue be recognized when the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability. That is, when the stipulations in a transfer, or the recipient’s actions and communications together with the stipulations in a transfer, create an obligation that meets the liability definition in LIABILITIES, Section PS 3200. Based on the feedback received, PSAB explored whether an authoritative accounting guideline would help clarify interpretations of Section PS 3410.

BC8.26 In August 2016, PSAB stated its intention to keep the government transfers standard as is, in the PSAB Matters Article, “Staying the Course on Government Transfers.” In the article, the Board notes the following:

> During the development of Section PS 3410, there were two schools of thought on recipient accounting for capital transfers:
>
> - Some believe revenues should be recognized once the related asset has been acquired or built.
> - Others believe revenue should be recognized over the useful life of the related asset.
>
> …. Flexibility was added to the standard to allow for both scenarios. It was designed to allow the terms of each transfer agreement alone or, in addition to a recipient’s own actions and communications, to drive the accounting treatment.
>
> Both scenarios require that the liability definition be met, taking into account the requirements of Section PS 3200, *Liabilities.*
>
> ….

We [PSAB] note that this is a problem Canada shares with the world. Other public sector standard setters also struggle with the treatment of government transfers. They face the same trade-off as we did when developing Section PS 3410. A standard that contains some flexibility on this issue may diminish comparability but can facilitate decision-useful information across the public sector.

We spent a great deal of time considering whether there was a way to improve consistency through an authoritative Guideline. As the standard was written with flexibility in mind, this was difficult to achieve. Eliminating flexibility through a Guideline could result in overriding the standard. Such an action is not consistent with our due process.

The PS 4200 series of the PSA Handbook

BC8.27 Some government not-for-profit organizations apply the PSA Handbook plus the PS 4200 series. This series of standards includes Section PS 4210 that, among other things, specifies the accounting for restricted contributions, such as those related to capital assets and endowments.

BC8.28 Any decisions related to these standards will be made through PSAB's Government Not-for-Profit Strategy project.

Accounting for Endowments

BC8.29 A few respondents were concerned that the elements would not allow appropriate accounting for endowments.

BC8.30 The accounting for endowments is a standards-level issue and so is outside the scope of the Concepts Underlying Financial Performance project. However, in Chapter 6 of the Conceptual Framework, PSAB identified the possibility of components of net assets or net liabilities at the standards level if such identification better serves the accountability objective. The Board identifying further components is a practical choice to establish an aspirational reporting model. For example, it may be appropriate in a stewardship-focused model to exclude from surplus or deficit the initial recognition of items that will be held solely for stewardship purposes such as heritage items, natural capital and perhaps endowments restricted in perpetuity.

BC8.31 This does not presuppose that in the future PSAB will develop a standard that will allow endowments to be reflected directly in net assets or net liabilities. Such a conclusion can be reached only after following the Board's due process and conducting the appropriate research. However, in determining the accounting for endowments, the Board would have a new alternative to consider for the credit side of the entry. CONTRIBUTIONS – REVENUE RECOGNITION, paragraph PS 4210.29, states that under the deferral method, endowment contributions are recognized as direct increases in net assets. This Section does not apply to all public sector entities. However, it is a Section in the PSA Handbook that the Board could look at when developing an endowment standard for all public sector entities.

Standards Inconsistent with the Conceptual Framework

BC8.32 Some standards in the PSA Handbook include "deferrals" that do not meet the definition of an asset or liability. These standards are inconsistent with the Conceptual Framework. These inconsistencies have arisen over time. The inconsistencies were developed for pragmatic reasons, reflecting the stage of the evolution of practice in the public sector. Some inconsistencies were created before a formal conceptual framework was in place. PSAB is aware of these inconsistencies. These inconsistencies will be considered when re-examination of the relevant standard is a priority for the Board's technical agenda.

BC8.33 PSAB expects that future inconsistencies with the Conceptual Framework will be rare, and when the Board allows and approves them, they will be substantively justified. Documentation of the reasons will be required in an accompanying Basis for Conclusions document. Departures from the Conceptual Framework are appropriate only if needed to meet the financial reporting objective: to provide information for accountability purposes.

Defining "Economic Resources" and "Economic Obligations"

BC8.34 Given the significant number of references to "economic resources" and "economic obligations" in the Conceptual Framework, PSAB concluded that it may be helpful to include definitions of "economic resources" and "economic obligations" that are consistent with the guidance provided in LIABILITIES, Section PS 3200, and ASSETS, Section PS 3210. These definitions are included in the Glossary and in Chapter 8 of the Conceptual Framework, paragraphs 8.09 and 8.16.

Adding Ownership Interest as an Element and the Notion of Issued Share Capital

BC8.35 In developing the Conceptual Framework, PSAB considered including ownership contributions and ownership distributions as elements, as noted in paragraph BC8.15, but decided against doing so for the following reasons:

(a) Differentiating between ownership contributions and government transfers for many public sector entities was problematic.

(b) Ownership distributions and ownership contributions are rare in the Canadian public sector and by including them as elements in the Conceptual Framework, they would be given undue prominence.

(c) Ownership contributions and ownership distributions represent changes in a component of net financial position. As a result, defining changes in a component of net financial position as an element contradicts the idea of elements as the basic building blocks of financial statements. Elements may have subcategories or subclassifications, but elements cannot be subcategories themselves.

BC8.36 Many of these reasons are similar and consistent with the reasons for not identifying net assets or net liabilities as an element as indicated in paragraph BC8.16.

BC8.37 However, PSAB also concluded that identifying the resources attributable to owners provides useful accountability information for those entities that have equity ownership arrangements. It is for this reason that the Board decided that entities that have equity ownership interests, such as issued share capital, would recognize their existence as a component of net assets or net liabilities, called "issued share capital". This is possible because:

(a) paragraph 6.25 of the Conceptual Framework signals that certain items, transactions or other events may be recognized outside of that period's surplus or deficit, as identified and approved by the Board;

(b) paragraph 6.20 introduces the notion of reporting the significant identifiable sources of an entity's financial position (i.e., components of net assets or net liabilities); and

(c) paragraph 8.28 states that changes in issued share capital are direct increases or decreases in net assets or net liabilities.

BC8.38 Details about this component are included in FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

BC8.39 In determining whether a transaction is "issued share capital" or something else, such as a government transfer or a loan, the substance of the transaction must be carefully reviewed. As indicated in Chapter 7 of the Conceptual Framework, "substance over form" is an aspect of faithful representation, a qualitative characteristic of financial information.

BC8.40 Only PSAB can identify the components of net assets or net liabilities.

Rate-regulated Assets and Liabilities

BC8.41 PSAB is aware that some stakeholders have issues with the use of rate-regulated accounting in the public sector. As a result, the Board has committed to monitor the progress being made on the IASB's project on rate-regulated activities. When the IASB issued its Exposure Draft, "Regulatory Assets and Regulatory Liabilities," PSAB participated in roundtable discussions with public sector stakeholders. PSAB heard the concerns expressed by these stakeholders and responded by recommending the inclusion of related party qualitative disclosure requirements within the response letter submitted by Canada's Accounting Standards Board.

BC8.42 Clarifying accounting for rate-regulated assets and liabilities in the public sector is outside the scope of the Concepts Underlying Financial Performance project. This complex area of accounting is a standards-level issue that would require significant research and stakeholder consultation, in alignment with PSAB's due process, prior to consideration of additional Canadian public sector guidance.

Asset and Liability Definitions

Why retain "expectation" in the asset and liability definitions

BC8.43 Consultation Paper 3 suggested replacing the notion of "expectation" in the asset and liability definitions with the notion that an asset (or a liability) is capable of generating economic benefits (or sacrificing/using economic resources). This was consistent with the asset (and liability) definition of the IASB and IPSASB. Many respondents stated that PSAB should retain the notion of "expectation of obtaining or sacrificing/using future economic benefits" in the definitions. They argued that defining an asset as being "capable of providing future economic benefits" or defining a liability as "can result in the future sacrifice of economic resources" would considerably widen the range of items that would be identified as assets and liabilities. This approach could lead to:

(a) pressure to identify every possible asset and liability thereby imposing a significant operational burden for little benefit if ultimately the asset or the liability is not recognized or is measured at nil;

(b) a presumption that, in principle, all assets and liabilities should be recognized even if the future economic benefit is not expected to be obtained or the future sacrifice of economic benefit is not expected; and

(c) pressure for irrelevant disclosure about unrecognized assets and liabilities that are not expected to be realized.

BC8.44 The intent of the proposal in Consultation Paper 3 was not to increase the items considered to be assets and liabilities or create the consequences identified by respondents. The intent was to:

(a) remove the redundancy between the element definitions and the general recognition criteria; and

(b) leave the parameters that determine which assets and liabilities are recognized in financial statements to the general recognition criteria.

BC8.45 Based on the feedback, PSAB decided to retain “expectation of realization” in the asset and liability definitions. This is a pragmatic choice. Removing the redundancy between the asset and liability definitions and the recognition criteria, while theoretically sound, is unlikely to add value, but likely to add an unnecessary reporting burden. The notion of “expectation of realization” was then included in the asset and liability definitions and exposed for comment in the Statement of Concepts and the Exposure Draft. Most respondents agreed with retaining “expectation of realization” in the asset and liability definitions. Refer to paragraphs BC8.78-BC8.79 for the impact of this decision on setting future standards.

Improvements to the asset and liability definitions

BC8.46 The asset and liability definitions have been modified to be singular and constructed in a parallel fashion.

BC8.47 The main amendment to the asset definition is the addition of “present” in front of “economic resource”. “Present” refers to the existence of the economic resource at the financial statement reporting date. The intention is to make the asset definition more precise. Using “present” to indicate existence of an economic resource at the reporting date does not necessarily mean that the asset can be used to settle liabilities at that date.

BC8.48 Only present economic resources can meet the definition of an asset. Possible economic resources, such as contingent assets, or future economic resources, such as contractual rights, cannot meet the definition of an asset.

BC8.49 The main amendment to the liability definition is the addition of “economic” in front of “obligation”. “Economic” was inserted to refer to the nature of the obligation. The intention is to make the liability definition more precise.

BC8.50 As a result of the changes, each definition reflects:

(a) the present nature of the resource or obligation;

(b) the economic nature of the present resource or obligation;

(c) the association of the present economic resource or economic obligation with the entity; and

(d) the expectation of the present economic resource or economic obligation of the entity to provide economic benefit to or require sacrifice of economic benefit from the entity.

BC8.51 “Transactions” has been removed from the definitions as it is a subset of “events”. However, the notion of “transactions and other events” has been retained in the rest of the content. PSAB considered changing “transactions” to “events” throughout. Since there are many instances of “transactions” in the PSA Handbook and stakeholders use the term “transactions”, the Board concluded that rather than eliminating “transactions” throughout, it would be more helpful to refer to “transactions and other events”.

BC8.52 There was a question from respondents with respect to the timing of settlement by future transfers or use of economic resources with respect to liabilities. Paragraph 8.21(b) outlines three timing possibilities:

(a) at a specified or determinable date;

(b) on occurrence of a specified transaction or other event; or

(c) on demand.

These timing possibilities are not new. They exist in LIABILITIES, Section PS 3200.

BC8.53 The revisions to the asset and liability definitions make the similarities and differences in the definitions clearer and assist in their application. No change in the substance of the definitions is intended by PSAB.

BC8.54 As a result of the changes, consequential amendments have been made to Section PS 3200 and ASSETS, Section PS 3210, to allow the content to be consistent with that in the Conceptual Framework.

BC8.55 There was overwhelming support for the proposed asset and liability definitions from respondents.

BC8.56 Elements are the very primary components of a Conceptual Framework and by nature free of any bias – they are the purest form of identification possible. As a result, elements are defined in isolation of management intent. Management intent is not a factor in determining expectation of realization in the asset definition.

Guidance related to the asset and liability definitions

BC8.57 Both the IASB and IPSASB have provided guidance in relation to assets and liabilities in the elements chapter of their conceptual frameworks. In the PSA Handbook, the detailed guidance for assets and liabilities (such as what past events are) is found in individual general application standards (i.e., LIABILITIES, Section PS 3200, and ASSETS, Section PS 3210) rather than the Conceptual Framework. This approach emphasizes the requirement for all items that meet the definition of an asset or liability to be recognized in the financial statements regardless of whether a specific PSA Handbook standard exists. Paragraph 9.06 of the Conceptual Framework also explains this requirement.

Revenue and Expense Definitions

BC8.58 In establishing the project, no major issues were identified with the definitions of revenue and expense in the PSA Handbook. However, since the project's mandate is to consider the concepts underlying financial performance, the definitions were reviewed to consider if any changes are needed.

BC8.59 Feedback from stakeholders in response to Consultation Paper 2 indicated a preference for an asset and liability–based reporting model. PSAB concluded that revenue and expense should continue to be defined only in terms of changes in assets and liabilities.

BC8.60 Based on the review of the revenue and expense definitions, PSAB amended the definitions to include the impact on net assets or net liabilities. The reference to an increase or decrease in net assets or net liabilities is required because some changes in assets and liabilities do not result in an increase or decrease in net assets or net liabilities. Some changes in assets or liabilities do not give rise to revenue or expense but instead to equal but opposite changes in other assets and liabilities. For example, debt repayments decrease assets and liabilities at the same time and in the same amount, but do not result in revenue or expense. Therefore, they do not result in any net change in net assets or net liabilities. The former definitions do not include the impact on net assets or net liabilities. Guidance after the former definitions excludes debt proceeds and debt repayments and other similar items, transactions or other events from being revenue and expense. The Board concluded that the revenue and expense definitions should stand on their own. As a result, the requirement for a net impact on net assets or net liabilities was added to each definition.

BC8.61 Chapter 6 of the Conceptual Framework alludes to the fact that certain items, transactions or other events that arise during the period may not be reflected in that period's surplus or deficit. Some items, transactions or other events, as required by PSAB, may be reflected directly in a component of net assets or net liabilities. As a result, for example, an increase in net assets may be due to a type of revenue being recognized in net assets. The revenue definition remains appropriate as it is an increase in assets (or decrease in liabilities) that results in an increase in net assets (or decrease in net liabilities), even though the increase in net assets is the result of revenue being recognized directly in net assets. The same applies to the expense definition.

BC8.62 There have been developments, domestically and internationally, in element definitions since the superseded conceptual framework was last considered. It was appropriate, therefore, to consider if any changes made by other standard setters also make sense for the public sector in Canada. Experience with the element definitions and their application was also reviewed to assess the need for changes to the definitions. The review considered:

(a) whether the revenue and expense definitions should include gains and losses, respectively; and

(b) other general improvements.

Gains and losses

BC8.63 A review of other standard setters' work indicates that most do not distinguish gains from revenue or losses from expense. Gains and losses do not differ from other revenues and expenses in their substance in that they are increases or decreases in assets or liabilities that result in increases or decreases in net assets or net liabilities.

BC8.64 However, differentiating between revenue and a gain, and an expense and a loss may be done for presentation purposes. The usefulness and need for such distinctions may vary depending on the nature of the entity, its operations and its other activities. Revenue for one kind of entity may be gains for another and losses for one kind of entity may be expense for another.

BC8.65 In the past, gains and losses were often identified as arising primarily from an entity's peripheral activities as contrasted with normal operating activities. Therefore, distinguishing gains from revenues and losses from expenses refined the reporting of results from operations. However, it may not be appropriate to identify gains and losses arising on financial instruments carried at fair value as "peripheral items", even though they are unrealized. For some entities, such gains and losses can be material and directly related to their mandate. For example, some governments concentrate management of their financial instruments primarily in one entity. The separation of revenue and expense from gains and losses, respectively, for display purposes is not an element question.

BC8.66 Element definitions should not be used to make distinctions of display or presentation. Therefore, revenues and expenses would continue to include gains and losses, respectively.

Other general improvements

BC8.67 PSAB concluded that the revenue and expense definitions should be refined by:

(a) making them singular, consistent with the asset and liability definitions;

(b) removing unnecessary detail; and

(c) constructing them in a parallel fashion as appropriate.

BC8.68 In relation to this conclusion, the following general characteristics of the revenue and expense definitions should be noted:

(a) The definitions associate the changes in assets and liabilities with the accounting period as financial statements measure financial performance on a periodic basis.

(b) The definitions need not include phrases associating them with the entity, as revenue and expense arise only from changes in assets and liabilities and the definitions of assets and liabilities associate the related economic resources and economic obligations with the entity.

(c) The definitions make specific reference to changes in net assets or net liabilities.

BC8.69 The revisions to the revenue and expense definitions make the similarities and differences in the definitions clearer and assist in their application. No change in the substance of the definitions is intended by PSAB.

BC8.70 As a result of the changes, consequential amendments have been made to REVENUE, Section PS 3400, to ensure the revenue definition is consistent with that in the Conceptual Framework. No change in the application of this standard is intended by PSAB as a result of updating the revenue definition used as the basis for Section PS 3400.

BC8.71 There was overall support from respondents for the revenue and expense definitions.

Flow-through arrangements

BC8.72 The Conceptual Framework does not provide guidance on the accounting for flow-through arrangements as this guidance is included in various standards:

(a) REVENUE, paragraphs PS 3400.A35-A41, provide guidance on determining whether an entity is acting as a principal or agent in a transaction and the related accounting:

(b) GOVERNMENT TRANSFERS, Section PS 3410, excludes from scope taxes or other amounts collected on behalf of others and flow-through arrangements where an entity is only an intermediary; and

(c) TAX REVENUE, paragraph PS 3510.12, provides guidance on the accounting for flow-through arrangements related to tax revenue.

Importance of All Statements in the Financial Statement Package

BC8.73 Deriving revenue and expense definitions from changes in assets and liabilities does not mean that PSAB focuses solely or primarily on the statement of financial position. Financial statements are intended to provide information about an entity's financial position and periodic financial performance. When making decisions about recognition, measurement, presentation and disclosure, the Board considers whether the resulting information is useful for accountability purposes. The Board has not designated one type of information (about financial position or about periodic financial performance) as the primary focus of financial reporting.

BC8.74 Identifying revenue and expense necessarily leads to identifying which assets and liabilities have changed. Standard setters have concluded that it is more effective, efficient, internally consistent and rigorous to define assets and liabilities first, and to define revenue and expense in terms of changes in assets and liabilities. It is difficult to define revenue and expense understandably without reference to assets and liabilities. If revenue and expense are defined first, assets and liabilities then become merely by-products of recognizing revenue and expense rather than representations of economic resources and economic obligations.

BC8.75 Any definitions of revenue and expense crafted without reference to assets and liabilities are primarily conventional, not conceptual, and make periodic measurement of financial performance largely a matter of individual judgment and personal opinion. Using the asset and liability definitions as the anchor imposes limits or constraints not only on what can be included in financial position but also what can be included in financial performance.

PSAB's International Strategy and the Impact on Setting Future Standards

Other resources and other obligations

BC8.76 Although the IPSASB identified the possibility of other resources and other obligations that do not meet the asset and liability definitions in its conceptual framework, the IPSASB has yet to identify any transactions that would be recognized in these categories. If the IPSASB decides to use "other resources" and "other obligations" in a standard that PSAB wishes to leverage, PSAB will need to determine an alternative accounting treatment that meets the financial reporting objective of providing accountability information. This alternative accounting treatment may or may not lead to the same impact on the net financial position indicator. For example, PSAB may consider using the "accumulated other" component of the net assets or net liabilities. The "accumulated other" component may be used to recognize items, transactions or other events that PSAB feels should be recognized outside of surplus or deficit when they arise, to better serve the accountability objective. For a comparable item, transaction or other event, using this component may possibly lead to the same effect on the net financial position indicator as IPSASB using the "other resources" and "other obligations" categories.

Ownership contributions and ownership distributions

BC8.77 IPSASB includes ownership contributions and ownership distributions as elements. PSAB does not. Since ownership contributions and ownership distributions are rare in the Canadian public sector, this difference is not expected to have significant impact for setting future standards. If the IPSASB determines that an item, transaction or other event is to be reflected as an ownership contribution or ownership distribution, and PSAB is leveraging principles from that IPSAS in Canada, PSAB will need to determine an accounting treatment that meets the financial reporting objective of providing information for accountability purposes. A possible accounting treatment could be recognizing the transaction or other event in the "issued share capital" component of net assets or net liabilities. Using this component may possibly lead to the same effect on the net financial position indicator as IPSASB using the "ownership contributions" and "ownership distributions".

Asset and liability definitions

BC8.78 PSAB's asset and liability definitions and recognition criteria include "expectation" of receipt or sacrifice of future economic benefits. IPSASB's definitions and recognition criteria do not. Refer to paragraphs BC8.43 to BC8.45 for an explanation as to why the notion of "expectation" was retained. The theoretical implication of this difference is that applying the IPSASB's definitions and recognition criteria may result in more items meeting the definition of an asset or a liability and possibly more assets and liabilities being recognized. However, PSAB is of the view that in most cases, PSAB and IPSASB will recognize similar assets and liabilities as this is the case currently. When the element definitions, the recognition criteria, and the measurement uncertainty considerations are taken into account, PSAB's assessment is that Public Sector Accounting Standards (PSAS) and International Public Sector Accounting Standards (IPSAS) will end up in about the same place, as holistically, similar information is taken into account in determining the item to be recognized and at what amount it is measured. While the initial list of possible assets and liabilities under IPSAS may be longer than under PSAS, once the recognition criteria and measurement principles are implemented, there should be no significant differences between PSAS and IPSAS.

BC8.79 In setting future standards, PSAB will need to determine whether an asset or liability recognized in an IPSAS meets its own element definitions and recognition criteria. If it does not, PSAB will need to determine if recognizing an item required to be recognized by the individual IPSAS under consideration meets the financial reporting objective of providing accountability information. In other words, despite the differences in the definitions, PSAB does have the opportunity to be consistent with the IPSASB with respect to assets and liabilities recognized. PSAB is of the view that it most likely will recognize similar assets and liabilities as the IPSASB if the recognition of these assets and liabilities meets the accountability objective and is in the public interest. As with the development of any standard, PSAB will follow the due process, including exposing a draft of the standard, consulting stakeholders and considering their feedback. The difference should not lead to issues adapting IPSAS when developing a new standard.

CHAPTER 9: RECOGNITION AND MEASUREMENT IN FINANCIAL STATEMENTS

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Background

BC9.01 Chapter 9 of the Conceptual Framework focuses on recognition and measurement.

BC9.02 The general recognition criteria and the measurement attribute remain substantively the same as in the superseded conceptual framework. PSAB also introduced a general derecognition concept; the superseded conceptual framework did not define derecognition or describe when derecognition occurs.

BC9.03 There was significant support from respondents for the recognition, derecognition and measurement concepts proposed.

The General Recognition Criteria

BC9.04 In reviewing the general recognition criteria, PSAB examined the general recognition criteria of the IPSASB and the IASB and considered removing the expectation threshold.

BC9.05 After careful reflection, PSAB decided to retain the former general recognition criteria in the PSA Handbook and refine them because:

(a) they appear to be working well in the public sector in Canada; and

(b) there is no compelling need or argument to change them significantly.

BC9.06 Further, PSAB believes that application of the recognition guidance of some international standard setters would achieve similar recognition as would occur through use of an expectation threshold even if an expectation threshold is not explicitly identified.

BC9.07 A respondent requested reference to the qualitative characteristics to help users make a judgment on measurement (i.e., the third recognition criteria – the item, transaction or other event can be measured). PSAB agreed that this clarity would be helpful and added reference to the qualitative characteristics. This clarification is also consistent with the reference to Chapter 7 in paragraph 9.06.

Redundancy in the General Recognition Criteria

BC9.08 There is a redundancy between (a) and (b) of the general recognition criteria. Criterion (b), which states "an item, transaction or other event is recognized in the financial statements when… it is expected that the future economic benefits… will be obtained or sacrificed," is considered in criterion (a), which is "the item meets the definition of an element." This is because the definition of an element considers the expectation of obtaining or sacrificing future economic benefits. A few respondents requested that this redundancy be removed.

BC9.09 In developing the criteria, PSAB recognized the redundancy. Therefore, in Consultation Paper 3, the Task Force proposed revising the asset and liability definitions to remove this redundancy. After considering input from respondents to Consultation Paper 3, the Board decided not to remove the notion in the asset and liability definitions that an inflow or outflow of future economic benefits is expected. This then retained the redundancy between the first two general recognition criteria. The Board concluded that removing the redundancy would not ultimately affect what was recognized in public sector financial statements but could impose a burden on stakeholders to evaluate more possible assets and liabilities.[18]

BC9.10 PSAB also decided to keep the redundancy to show how the general recognition criteria requires the assessment of various uncertainties:

(a) The first criterion requires an assessment of existence uncertainty.

(b) The second criterion requires an assessment of realization uncertainty.

(c) The third criterion requires an assessment of estimation uncertainty.

BC9.11 PSAB believes that there is no harm in retaining the redundancy.

18 Refer to paragraphs BC8.43-BC8.45 for further discussion on this matter.

Redundancy in the General Derecognition Criteria

BC9.12 There is a similar redundancy between the general derecognition criteria. This redundancy is intentional as it mirrors the redundancy retained in the general recognition criteria.

BC9.13 The derecognition criteria are meant to stand on their own without referring to the general recognition criteria. The general derecognition criteria are used when specific derecognition criteria are not set out for a particular item, transaction or other event within GAAP.

The Primary Measurement Attribute

BC9.14 The conceptual framework review was established as a limited-scope review to revise or confirm specific concepts underlying financial performance. The measurement attribute was not one of the concepts PSAB asked its Task Force to reconsider.[19] Although the Board reflected on the work done by other standard setters in developing the Conceptual Framework, the work did not include a full reconsideration of the relative merits of all possible measurement attributes that could be used in financial statements.

BC9.15 PSAB is reconfirming historical cost as the primary measurement attribute, recognizing that the Board might require other measurement attributes at the standards level when necessary to meet the accountability objective. For example:

(a) Derivatives with no transaction price recognized at historical cost would not be recognized at all in financial statements. Given the risks that such contracts pose regarding the financial health of entities, recognition of these contracts at nil would be misleading for financial statements users and, therefore, would not provide good accountability information. Disclosure is not a substitute for proper recognition and measurement of a transaction. It should be used to support, explain and expand on the information reported on and in the financial statements, as noted in Chapter 10 of the Conceptual Framework.

(b) Historical cost may not be available for certain items, such as non-purchased natural resources and works of art and historical treasures. However, PSAB may ultimately conclude that these items should be recognized or disclosed for accountability purposes.

BC9.16 An important goal of the Conceptual Framework is to establish concepts to ensure financial statements provide the accountability information needed by the public and its elected or appointed representatives and support the development of internally consistent and consistently applied standards. Although the primary measurement attribute for assets and liabilities is historical cost, there may be situations where PSAB may require another measurement attribute of an asset or liability to better meet the accountability objective. The different measurement attributes that the Board may require would depend on the situation under consideration and its choice would be grounded in meeting the overriding accountability objective.

BC9.17 Any PSAB requirement of a measurement attribute other than historical cost would be determined at the standards level. Its use would be justified and explained in terms of how it contributes to better information for accountability purposes. This guidance is slightly different from what is included in the superseded conceptual framework; however, the intent is the same. The guidance (i.e., the Board determines whether a different measurement attribute should be used to better serve the accountability objective) is tighter than that in the

19 FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.60, includes general measurement principles that identify historical cost as the primary measurement attribute for financial statements but also recognizes that other attributes may be used in limited circumstances.

superseded conceptual framework. It specifically restricts any choice of an alternative measurement attribute to the Board and requires its justification in the relevant standard's Basis for Conclusions. This was the intent of the guidance in the superseded conceptual framework. Therefore, the Board believes that this clarification would not create a change in practice.

The primary measurement requirement and its impact on the use of secondary sources of GAAP

BC9.18 A few respondents wondered if the tighter guidance on the measurement attribute would have any unintended consequences for entities that consult a secondary source of GAAP when the transaction or event is not considered in the PSA Handbook. According to paragraph PS 1150.05, the secondary source of GAAP that is being consulted needs to be consistent with the primary sources of GAAP and the Conceptual Framework. As a result, the tighter language around the primary measurement attribute would restrict entities from using a measurement basis from a secondary source that is other than historical cost. For example, if entities are seeking guidance on how to account for intangible assets, IPSAS 31, *Intangible Assets*, can be consulted. This standard requires the recognition of intangibles using the cost or revaluation models. The cost model is consistent with PSAB's Conceptual Framework, as a result, this standard would be appropriate to use.

The primary measurement requirement and its impact on the valuation of inventory

BC9.19 A few respondents noted that certain entities value inventories that are for consumption or use, using the lower of historical cost or replacement cost, based on superseded paragraph PS 1000.60. These respondents were concerned that the tighter guidance relating to the measurement attribute suggests that entities can only deviate from historical cost when PSAB makes that determination.

BC9.20 It is important to recognize that:

(a) the notion in FINANCIAL STATEMENT CONCEPTS, superseded paragraph PS 1000.60, is included in the Conceptual Framework; and

(b) the historical cost description in Chapter 9 of the Conceptual Framework states that "Subsequent to initial measurement the historical cost of an asset may be adjusted (e.g., for amortization or impairment.)" Such adjustment may lead to a value that is similar to replacement cost.

As a result, PSAB concluded valuing inventory at the lower of historical cost and replacement cost would be possible under the requirements of the Conceptual Framework. It is not the intent of the Board for entities to change their existing accounting policy for measuring inventories as a result of the Conceptual Framework.

BC9.21 The adjustments to historical cost are adjustments that reduce the original historical cost value. Upward valuations would not be allowed on subsequent measurement unless specifically allowed by a standard.

BC9.22 In its "Future Workplan Consultation" issued in 2022, PSAB included inventory as a possible future project topic that it could undertake as other projects are completed and resources become available.

Inclusion of "Fulfillment Value" or "Cost of Fulfillment" in the Conceptual Framework

BC9.23 Respondents noted that there are instances where historical cost is not available. For example, the option of historical cost may not be available when measuring employee future benefits, as no proceeds are received when the benefit obligation is incurred that can be used to establish the historical transaction cost.

BC9.24 A few respondents suggested including "fulfillment value" or "cost of fulfillment" as a measurement attribute in the Conceptual Framework,[20] indicating that it may be an appropriate value to use in situations when no historical proceeds are identifiable (e.g., employee future benefits).

BC9.25 The lists of measurement attributes and measurement techniques in Chapter 9 of the Conceptual Framework are not exhaustive. Not all possible measurement attributes or measurement techniques are included. When developing a standard, it is possible for PSAB to use a measurement attribute or measurement technique that is not listed. Its use would need to be justified and explained in terms of how it contributes to better information for accountability purposes.

BC9.26 The description of historical cost includes how historical cost may be interpreted for a liability for which an obligation exists, but no proceeds have been received. That description is, at initial measurement, "the estimated amount of cash or its equivalent to be paid or other consideration to be sacrificed to (a) settle the liability or (b) acquire, construct or develop an asset." It is found in paragraph 9.33(a)(iii). Its inclusion reflects the fact that estimation of historical cost may be required for initial measurement of some liabilities and assets. It acknowledges that such estimation may involve calculation of the initially expected value for discharging such a liability or obtaining an asset in the due course of operations according to contractual or other terms.

The Definition of "Fair Value"

BC9.27 PSAB recognizes that its definition of "fair value" is slightly different from that of international standard setters and recognizes that this may cause some confusion.[21] The Board contemplated amending the definition in the Conceptual Framework. Doing so would require:

(a) a thorough review of all the mentions of "fair value" in the PSA Handbook to ensure that the revised definition applied; and

(b) in situations where the revised definition did not apply, consideration of the implication.

"Fair value" appears more than 200 times in the PSA Handbook. The Board feels that such a review is beyond the scope of the Concepts Underlying Financial Performance project as it may delay issuing the Conceptual Framework and FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

BC9.28 In the future, if the definition of "fair value" is amended because of work done at the standards level, it would result in a consequential amendment to the Conceptual Framework.

20 The IASB defines "fulfillment value" as "the present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfills a liability. Those amounts of cash or other economic resources include not only the amounts to be transferred to the liability counterparty, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfil the liability." The IPSASB refers to the equivalent measurement attribute as "cost of fulfillment". It defines it as "the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner."

21 PSAB's definition of "fair value" in the Conceptual Framework is consistent with the IASB's former definition of "fair value". PSAB's definition of "fair value" is consistent with the IPSASB's existing definition of "market value".

"Going Concern" Discussion

BC9.29 The going concern discussion in Chapter 9 of the Conceptual Framework builds on the longevity discussion in Chapter 2, and the going concern discussion in FINANCIAL STATEMENT PRESENTATION, Section PS 1202[22] builds on the going concern concepts in Chapter 9 of the Conceptual Framework. These three related aspects to a going concern evaluation in the public sector should be considered together. The Conceptual Framework is meant to provide the concepts and the foundation for considering the validity of a going concern assumption, with detailed guidance being provided at the standards level (i.e., in Section PS 1202).

BC9.30 A few respondents requested the discussion acknowledge the possibility of public sector entities, including governments, to be amalgamated. This is acknowledged in the discussion in Section PS 1202.

BC9.31 The paragraph included in the Exposure Draft stating that when the going concern assumption becomes inappropriate, the measurement attributed may need to be reconsidered, was removed. This paragraph raised questions (such as what measurement attribute should be used in these circumstances) and a concern (it would be difficult to remeasure assets and liabilities at liquidation values as there may not be a liquidation value for many public sector assets). A review of the text in the conceptual frameworks and reporting models of other standard setters indicated they use less specific text, but their financial statement presentation standards acknowledge that "another basis" might sometimes be required. In the public sector, every situation is unique; professional judgment is required.

PSAB's International Strategy and the Impact on Setting Future Standards

BC9.32 There are a few notable differences between PSAB's recognition criteria and measurement concepts and those included in IPSASB's conceptual framework.

Recognition criteria

BC9.33 PSAB's recognition criteria (and asset and liability definitions) include "expectation" of receipt or sacrifice of future economic benefits. IPSASB's recognition criteria (and asset and liability definitions) do not. The implication of this difference is that applying the IPSASB's definitions and recognition criteria may result in more items meeting the definition of an asset or a liability and possibly more assets and liabilities being recognized. However, PSAB is of the view that in most cases, PSAB and IPSASB will recognize similar assets and liabilities as this is the case currently. When the element definitions, the recognition criteria, and the measurement uncertainty considerations are taken into account, PSAB's assessment is that PSAS and IPSAS will end up in about the same place as, holistically, similar information is taken into account in determining the item to be recognized and at what amount it is measured.

BC9.34 In setting future standards, PSAB will need to determine whether an asset or liability recognized in an IPSAS meets its own element definitions and recognition criteria. If it does not, PSAB will need to determine if recognizing an item required to be recognized by the individual IPSAS under consideration meets the financial reporting objective of providing accountability information. In other words, despite the differences in the recognition, PSAB does have the opportunity to be consistent with the IPSASB with respect to assets and

22 Section PS 1202 will be published into the PSA Handbook at a later date.

liabilities recognized. PSAB is of the view that it most likely will recognize similar assets and liabilities as the IPSASB, if the recognition of these assets and liabilities meets the accountability objective and is in the public interest. As with the development of any standard, PSAB will follow the due process, including exposing a draft of the standard, consulting stakeholders and considering their feedback. The difference should not lead to issues adapting IPSAS when developing a new standard.

Measurement

BC9.35 PSAB has a primary measurement attribute, historical cost. IPSASB does not. In its conceptual framework, the IPSASB lists a series of measurement bases that could be used and some of the individual IPSAS allow or require measurement bases other than historical cost. The difference in the measurement approach may lead to differences in the future when developing standards. PSAB would need to determine whether a measurement attribute in an IPSAS principle being leveraged by PSAB meets the accountability objective. For now, although the measurement approach is different, a review of the various IPSAS and standards in the PSA Handbook reveals that many similar transactions can be accounted for using the same measurement attributes (e.g., tangible capital assets can be recognized at cost, financial instruments are recognized at fair value).

BC9.36 At the time PSAB was developing the Conceptual Framework, the IPSASB was conducting a project on measurement. The intent of the project was to update the measurement chapter of the IPSASB conceptual framework and develop a standard that provides guidance on various measurement attributes. PSAB reviewed the progress on this project during its deliberations and provided responses to IPSASB's measurement-related exposure drafts.

BC9.37 Some respondents suggested PSAB adopt this IPSASB work. A full review of the various measurement concepts was out of scope of the Concepts Underlying Financial Performance project. As a result, a full review of the merits of entry and exit values, or entity-specific measurement attributes and those that are more generally available, such as fair value based on an active market, was not done.

BC9.38 However, at some point, when it is a priority identified for PSAB's technical agenda, the Board may initiate a project to consider leveraging the IPSAS measurement principles for application in Canada. The Board concluded that pausing the Canadian project after the exposure draft stage of the project to reconsider measurement concepts more fully or to leverage the developing IPSASB work in this area would not be appropriate. Full reconsideration of measurement concepts was never in the project scope. The Task Force and PSAB have only clarified and explained the measurement approach.

Exclusions from Recognition

BC9.39 The recognition paragraphs in the superseded conceptual framework (FINANCIAL STATEMENT CONCEPTS, paragraphs PS 1000.57-58) exclude some items from recognition in an entity's financial statements. These include:

(a) natural resources (including trees or forests) that have not been purchased;

(b) Crown lands that have not been purchased;

(c) works of art and historic treasures; and

(d) certain intangibles (those that have been developed or not purchased).[23]

23 Purchased intangibles, purchased natural resources and purchased Crown lands can be recognized if they meet the asset definition and the general recognition criteria.

BC9.40 Historically, these items were excluded from recognition on the basis that the costs, benefits and economic value of such items could not be reasonably and verifiably quantified using existing methods. PSAB concluded that these are pragmatic exclusions that are not conceptually based. As a result, they should not be included in the Conceptual Framework.

BC9.41 PSAB considered two alternatives with respect to these exclusions:

(a) not including them in the Conceptual Framework, but retaining them in ASSETS, Section PS 3210; or

(b) removing them from the PSA Handbook.

BC9.42 Removing the recognition exclusions from the PSA Handbook would have significant implications. Specifically, there would be issues related to non-purchased items and certain intangibles such as those that are internally developed. PSAB concluded that before these exclusions can be removed, each type of economic resource must be considered individually, and stakeholders consulted. Appropriate guidance regarding their recognition and measurement must be provided before the recognition exclusions are removed from the PSA Handbook. From a Conceptual Framework perspective, only general recognition and measurement concepts can be provided. The Board concluded that the exclusions should continue to exist. As a result, the Board removed them from the Conceptual Framework but relocated them to FINANCIAL STATEMENT PRESENTATION, Section PS 1201, until FINANCIAL STATEMENT PRESENTATION, Section PS 1202, is issued. The Board feels this approach would give it the opportunity to consider the priority of the topics set out in these exclusions for its future technical agenda. The intent is to continue with existing practice, that is, to continue to not recognize those items that are excluded from recognition until future decisions are made by the Board.

BC9.43 There was overwhelming support to remove the recognition exclusions from the Conceptual Framework, but insufficient support to remove them entirely from the PSA Handbook.

BC9.44 As standards related to the recognition exclusions are developed, consequential amendments would be made to the financial statement presentation standard to remove the relevant exclusion.

BC9.45 Many respondents to the Exposure Draft asked PSAB to consider removing the recognition exclusion of non-purchased natural resources from the PSA Handbook. They noted that the removal of the exclusion would not obligate an entity to recognize these natural resources. However, it would allow entities that are ready to recognize natural resources in their financial statements to do so regardless of whether they had been purchased. The Board notes that, without the exclusion, entities would be required to evaluate all non-purchased natural assets against the asset definition and general recognition criteria. And if they meet the definition and are measurable, public sector accounting standards (PSAS) would require their recognition. The Board reconfirmed its position that appropriate guidance regarding their recognition and measurement must be provided before the recognition exclusions are removed from the PSA Handbook.

BC9.46 Although the recognition exclusions are relocated to Section PS 1201, neither the Conceptual Framework nor Section PS 1201 restrict an entity from providing further disclosures related to the recognition exclusions. The Conceptual Framework encourages the use of supplemental information allowing financial statement preparers to provide information on the recognition exclusions in the notes or schedules. Paragraph 10.24 of the Conceptual Framework states, “Entities may supplement the core financial statement requirements with additional information in the notes and schedules” if certain criteria are met.

Development of Guidance Related to the Accounting for Natural Assets

BC9.47 Many respondents encouraged PSAB to develop guidance in relation to recognizing natural assets in financial statements or developing a disclosure standard for natural resources.

BC9.48 PSAB has been monitoring the work being done internationally with respect to the accounting and disclosure of natural resources. PSAB has been actively involved in this area as it understands that it is an important topic for Canadian stakeholders.

CHAPTER 10: PRESENTATION CONCEPTS FOR FINANCIAL STATEMENTS

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Background

BC10.01 Chapter 10 of the Conceptual Framework defines presentation and identifies the presentation objective and the presentation concepts that lead to achieving the presentation objective in financial statements. This chapter completes the Conceptual Framework. PSAB felt this should be the last chapter because it provides information on how financial information that is selected would be presented. The chapters in the Conceptual Framework on qualitative characteristics (Chapter 7), elements (Chapter 8) and recognition and measurement (Chapter 9) provide guidance on selecting much of the information to be presented.

BC10.02 The superseded conceptual framework in the PSA Handbook had no general presentation concepts. PSAB concluded that general guidance in this area might help increase the understandability and cohesiveness of the information presented in financial statements, thereby increasing their accountability value. The intent of adding presentation concepts is to:

(a) provide presentation guidance in the absence of specific standards;

(b) help entities apply professional judgment in presentation decisions and communicate information more effectively;

(c) improve the effectiveness of disclosures for the primary users; and

(d) help the Board develop and improve presentation requirements at the standards level.

BC10.03 Some of the concepts in this chapter are based on paragraphs in FINANCIAL STATEMENT PRESENTATION, Section PS 1201. PSAB thought that some of the paragraphs were more conceptual in nature and should be foreshadowed in the Conceptual Framework. These include:

(a) Notes and supporting schedules in financial statements should not be used as a substitute for proper accounting treatment (paragraph PS 1201.010).

(b) Financial statements should be presented in such form and use such terminology and classification of items that significant information is readily understandable (paragraph PS 1201.016).

BC10.04 These paragraphs are re-emphasized at the standards level in FINANCIAL STATEMENT PRESENTATION, Section PS 1202,[24] because they are key.

BC10.05 Presentation concepts were added to promote the preparation of understandable financial statements to meet the accountability objective.

BC10.06 Some entities may already apply the concepts in Chapter 10 of the Conceptual Framework in preparing their financial statements. Others may need to institute new practices when implementing Chapter 10 concepts to ensure the financial statements are understandable to the public and its elected or appointed representatives.

Presentation Includes Disclosure

BC10.07 Historically, users looked at presentation and disclosure separately. “Presentation” was understood as referring to what is reported on the face of the financial statements, while “disclosure” was understood as referring to what is included in the notes and schedules. In developing the Statement of Concepts, PSAB defined “presentation” as “the process by which an entity communicates information in its financial statements.” This definition is consistent with the intended meaning of “to present” found in various dictionaries. Based on this definition of “presentation”, “disclosure” is a part of “presentation”. Disclosure is one way information is presented in financial statements. Reporting on the face of the financial statements alone is insufficient for a reader to understand an entity’s assets, liabilities, revenues and expenses. Disclosure is integral to presentation.

BC10.08 The notion that presentation includes disclosure requires a series of minor amendments to various standards in the PSA Handbook. Such amendments will not change practice and are only conforming amendments to ensure consistent terminology. These amendments will be done through PSAB’s annual improvement process.

Equality of Individual Statements and Notes in the Financial Statement Package

BC10.09 One of the issues that gave rise to the conceptual framework review was the perception that the superseded conceptual framework was focused on the statement of financial position. When the superseded conceptual framework was approved, PSAB did not intend to elevate the importance of the statement of financial position over the statement presenting the surplus or deficit. The Board did not intend for there to be a hierarchy of financial statements where one is considered more important. Therefore, the presentation concepts chapter clearly states, in paragraph 10.11, that “[n]o one individual statement in the financial statement package is more important than any other individual statement. Each statement has its own purpose.”

BC10.10 The chapter also states, in the same paragraph, “The notes and schedules in the financial statement package have the same significance as information recognized and reported on the face of the financial statements.” PSAB believes that recognition and reporting on the face of the financial statements, either individually or within totals, does not necessarily meet all the accountability requirements. As a result, notes and schedules are an integral part of the financial statement package.

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24 Section PS 1202 will be published into the PSA Handbook at a later date.

(a) They clarify and explain items, transactions and other events recognized and reported on the face of the financial statements, either individually or within totals.

(b) They present information that augments and supports fair presentation of an entity's financial position and periodic financial performance.

BC10.11 PSAB believes that all statements and the related notes and schedules need to be looked at together when evaluating the presentation of an entity's financial position and periodic financial performance for cohesiveness and how well it meets the qualitative characteristics of financial information and the financial reporting objective of providing accountability to the primary users.

Presenting a Cohesive Picture

BC10.12 A few respondents to the Statement of Concepts were concerned with the use of the term "cohesive" and possible unintended consequences that its use may have. PSAB considered this concern. The Exposure Draft provided an explanation of "cohesive", in paragraph 10.08, in relation to financial statements and how that term is expected to be interpreted in presenting information in financial statements:

> A cohesive financial picture means that the relationship between items, transactions and other events across financial statements is clear and that an entity's financial statements, including the related notes and schedules, complement each other as much as possible. Ensuring that the association between the different aspects of the same transaction or other event is apparent in the financial statements is a fundamental aspect of providing a cohesive financial picture.

BC10.13 The requirement for cohesiveness encourages the presentation of the entire picture of an entity's performance and requires that interrelationships between items, transactions and other events presented in financial statements are clear to readers. Given the importance of this picture to users, PSAB chose to retain this requirement.

Supplemental Information

BC10.14 An entity's financial position and periodic financial performance prepared in accordance with GAAP is crucial accountability information for the public and its elected or appointed representatives, as established in the other chapters of the Conceptual Framework. There is a distinction between supplemental information provided as part of the financial statements, to which the parameters in paragraph 10.24, would apply and supplemental information provided outside of financial statements. When an entity prepares supplemental information outside of financial statements, such as the FSD&A, as described in SORP-1, it expands on and explains the information in its financial statements. The presentation definition, objective and concepts in this chapter are intended as guidance to help entities prepare financial statements designed to:

(a) meet the understandability and accountability needs of the public and its elected or appointed representatives; and

(b) provide a strong foundation for presenting supplemental information outside of financial statements when it is prepared.

Legislated Requirements

BC10.15 The Exposure Draft included a paragraph acknowledging that there may be instances where legislation requires certain entities to present information in financial statements that is inconsistent with the Conceptual Framework. Several respondents expressed concern with this paragraph. They felt that the paragraph was confusing, it could be interpreted as legitimizing GAAP departures, or that it implied that GAAP could be something other than the standards in the PSA Handbook. After careful consideration, PSAB decided to remove this paragraph for the following reasons:

(a) The Board's mandate is to establish GAAP for the general-purpose financial statements of public sector entities. While legislated accounting may occur, it is not the Board's role to design rules as to how such requirements would be included in financial statements.

(b) Audit standards provide guidance in relation to GAAP departures. The implications of GAAP departures in general-purpose financial statements would be a matter for auditor-preparer resolution.

(c) The financial statement presentation standard notes that complying with GAAP as set out in the PSA Handbook is considered equivalent to achieving fair presentation. The Board concluded that diluting this message would be inappropriate.

Use of Emerging Technology

BC10.16 In Chapter 10 of the Conceptual Framework, PSAB recognizes that available emerging technology should be considered in making financial statements more accessible and understandable.

CONSEQUENTIAL AMENDMENTS ARISING FROM THE CONCEPTUAL FRAMEWORK

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Background

BC CA.01 The PSA Handbook has been amended to be consistent with the Conceptual Framework. The amendments include:

(a) withdrawing FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100 (the superseded conceptual framework);

(b) amending:
   (i) references to the superseded conceptual framework;
   (ii) the general application standards LIABILITIES, Section PS 3200, and ASSETS, Section PS 3210;
   (iii) REVENUE, Section PS 3400;
   (iv) the title of the "Introduction to Public Sector Accounting Standards";
   (v) DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100;
   (vi) references to "service capacity";
   (vii) references to "reliability";
(c) revising the definition of "materiality";
(d) introducing requirements in relation to entity-developed accounting policies; and
(e) additions to FINANCIAL STATEMENT PRESENTATION, Section PS 1201.

BC CA.02 Many other minor consequential amendments could be made to the PSA Handbook to be consistent with the Conceptual Framework, such as amending references to "presentation and disclosure".[25] However, these will be reviewed through PSAB's annual improvement process.

BC CA.03 Amendments have not been made to update the various Sections to replace "government" with "public sector entity". In paragraph 20 of its Basis for Conclusions, "2018-2019 Annual Improvements," PSAB explained that:

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

BC CA.04 In developing the consequential amendments, considerable time was taken to identify necessary amendments through a review of the entire PSA Handbook. However, PSAB recognizes the risk that further required amendments may be identified in the future. Any additional future amendments would be accomplished through the Board's annual improvements process.

BC CA.05 Most of the consequential amendments are editorial in nature. They do not:

(a) create a new principle;
(b) change an existing principle; or
(c) change practice.

However, there are a few consequential amendments, specifically those related to entity-developed accounting policies (in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, and ACCOUNTING CHANGES, Section PS 2120) where new requirements are introduced. New requirements have been highlighted through the addition of a transitional paragraph in the respective Section.

Withdrawal of Sections PS 1000 and PS 1100

BC CA.06 FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, comprised the superseded conceptual framework. These Sections are withdrawn from the PSA Handbook and replaced with The Conceptual Framework for Financial Reporting in the Public Sector ("the Conceptual Framework").

25 Chapter 10 of the Conceptual Framework indicates that presentation includes disclosure. Therefore, references to "presentation and disclosure" need to be amended.

Amending References to the Superseded Conceptual Framework

BC CA.07 With the withdrawal of FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, references to them have been replaced with specific chapter references or general references to the Conceptual Framework.

Amending the General Application Standards

BC CA.08 PSAB made amendments to the general application standards LIABILITIES, Section PS 3200, and ASSETS, Section PS 3210, as part of the Conceptual Framework. These amendments:

(a) make the definitions and essential characteristics of an asset and a liability consistent with those in Chapter 8 of the Conceptual Framework;

(b) replace references to “transaction(s) or event(s)” with “transaction(s) or other event(s)” or “event(s)” where applicable to make them consistent with the clarification introduced in the Conceptual Framework that transactions are a subset of events;

(c) include a footnote recognizing that “transactions are a subset of events” consistent with the language used in the Conceptual Framework; and

(d) include “economic” before “obligations” where applicable as the Conceptual Framework specifies that liabilities are economic obligations in the same way that assets are economic resources.

BC CA.09 PSAB has also updated Section PS 3200 so that the term “government” was replaced with “public sector entity” or “entity” where applicable. This was done as this Section applies to all public sector entities. It is the Board’s view that as a general application standard that amplifies the characteristics of the liability definition set out in Chapter 8 of the Conceptual Framework, Section PS 3200 should refer to “public sector entity” rather than “government”. Section PS 3210 was issued after Section PS 3200 and already refers to “public sector entity” or “entity” rather than “government”. As noted in the “Background” section, the Board will update this terminology in other standards incrementally when standards and other guidance are updated as part of a given annual improvement cycle.

Amending Section PS 3400

BC CA.10 PSAB updated REVENUE, paragraphs PS 3400.02 and PS 3400.27, to adopt the refinements in the revenue and liability definitions in Chapter 8 of the Conceptual Framework. This was done to maintain consistency with the Conceptual Framework.

Amending the “Introduction to Public Sector Accounting Standards”

BC CA.11 PSAB amended the title “Introduction to Public Sector Accounting Standards” to “Introduction to the Public Sector Accounting Handbook” (the Introduction). The Introduction applies to the entire PSA Handbook, not only the public sector accounting standards that form generally accepted accounting principles (GAAP). The Conceptual Framework follows the Introduction and is integral to the PSA Handbook but is not a standard.

BC CA.12 The superseded conceptual framework was set out in the same format as a standard in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and parts of FINANCIAL STATEMENT OBJECTIVES, Section PS 1100. This resulted in some confusion as to whether the Conceptual Framework forms part of public sector accounting standards and so, part of GAAP. The Conceptual Framework is not a standard. However, it is the foundation for GAAP and the reference for developing standards when GAAP is silent. As per DISCLOSURE OF ACCOUNTING POLICIES, paragraph PS 2100.07, financial statements are prepared in accordance with Canadian public sector accounting standards.

Amending Section PS 2100

BC CA.13 Given the Conceptual Framework considers the importance of notes, including the disclosure of accounting policies, PSAB developed consequential amendments to DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100. These amendments:

(a) include references to digital technology and remove certain restrictions where technology can assist in making the disclosure and financial statements more understandable; and

(b) replace the references to “the considerations” with “the qualitative characteristics and related considerations” in Chapter 7 of the Conceptual Framework.

Amending References to “Service Capacity”

BC CA.14 Chapter 3 of the Conceptual Framework defines “service capacity” as the capacity or ability to serve the public. PSAS use the term “service capacity” more narrowly, referring to the capacity of individual tangible capital assets to provide services. As a result, PSAB has amended references in PSAS to “service capacity” where applicable so that the meaning is clearer; for example, using “service potential” in instances within GAAP where “service capacity” was formerly used.

Amending References to “Reliability”

BC CA.15 The superseded conceptual framework lists reliability as a qualitative characteristic. In Chapter 7 of the Conceptual Framework, PSAB replaced “reliability” with “faithful representation.” Amendments have been made to several Sections to update for the change in characteristic.

Revising the Definition of “Materiality” Consistent with the Conceptual Framework

BC CA.16 PSAB amended the definition of “materiality” in MEASUREMENT UNCERTAINTY, Section PS 2130, to be consistent with how materiality is defined in Chapter 7 of the Conceptual Framework.

Amendments Related to Entity-developed Accounting Policies

BC CA.17 There may be circumstances in which an entity develops its own accounting policy when the PSA Handbook is silent. This is an entity-developed accounting policy. Such a circumstance could occur after the issuance of the Conceptual Framework (December 2022) and before the effective date of the Conceptual Framework (April 1, 2026). To provide preparers with guidance on what to do during this period (December 2022-April 1, 2026), PSAB made consequential amendments to GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, to clarify that in circumstances when:

(a) the PSA Handbook is silent on a transaction or other event an entity encounters;

(b) the entity is developing an accounting policy for reflecting the transaction or other event in financial statements, and

(c) these circumstances occur prior to adopting the Conceptual Framework,

the entity would need to consider the Conceptual Framework in developing the accounting policy for that transaction or other event. The Board concluded the Conceptual Framework should be effective for GAAP hierarchy purposes (i.e., Section PS 1150) once issued. The Conceptual Framework provides a stronger foundation for applying professional judgment in developing appropriate accounting policies when the PSA Handbook is silent.

BC CA.18 There may be instances when an entity decides to amend an existing entity-developed accounting policy. As a result, PSAB made consequential amendments to ACCOUNTING CHANGES, Section PS 2120, to clarify that if, before the effective date of the Conceptual Framework, an entity is amending an accounting policy it previously developed for reflecting in financial statements a transaction or other event on which the PSA Handbook is silent, such amendment would:

(a) be deemed a change in accounting policy and subject to the requirements of Section PS 2120 if the amendment is only to make the policy consistent with the Conceptual Framework; or

(b) need to be consistent with the Conceptual Framework if amended for reasons already described in paragraph PS 2120.02.

BC CA.19 These requirements are effective once the Conceptual Framework is issued. This is to ensure that, for circumstances about which the PSA Handbook is silent, existing accounting policies an entity amends in the interim between issuance of the Conceptual Framework and its effective date reflect PSAB's most current thinking on the concepts underlying financial statements.

BC CA.20 PSAB discussed whether an entity should update all its existing entity-developed accounting policies to be consistent with the Conceptual Framework. The Board noted that from a purely technical perspective it would be appropriate for an entity to review and amend as necessary all existing entity-developed accounting policies to be consistent with the Conceptual Framework. However, the Board acknowledges that for some entities this may be an extensive undertaking. As a result, the Board concluded that flexibility would be provided as to a reasonable timeframe to complete the review of existing entity-developed accounting policies. Entities would look at their individual circumstances to determine a reasonable timeline to amend their existing entity-developed accounting policies to be consistent with the Conceptual Framework. Professional judgment would be used to determine the reasonable timeline.

BC CA.21 Considerations for determining which existing entity-developed accounting policies should be updated and the reasonable timeline could include the following:

(a) Does PSAB have a project on its technical agenda related to the entity-developed accounting policy? If so, that entity-developed accounting policy could be updated when the standard being developed is finalized.

(b) Has the Board issued a standard or guideline on the topic addressed in the accounting policy for which an effective date is pending? If so, that entity-developed accounting policy would be updated when the standard or guideline is adopted by the entity.

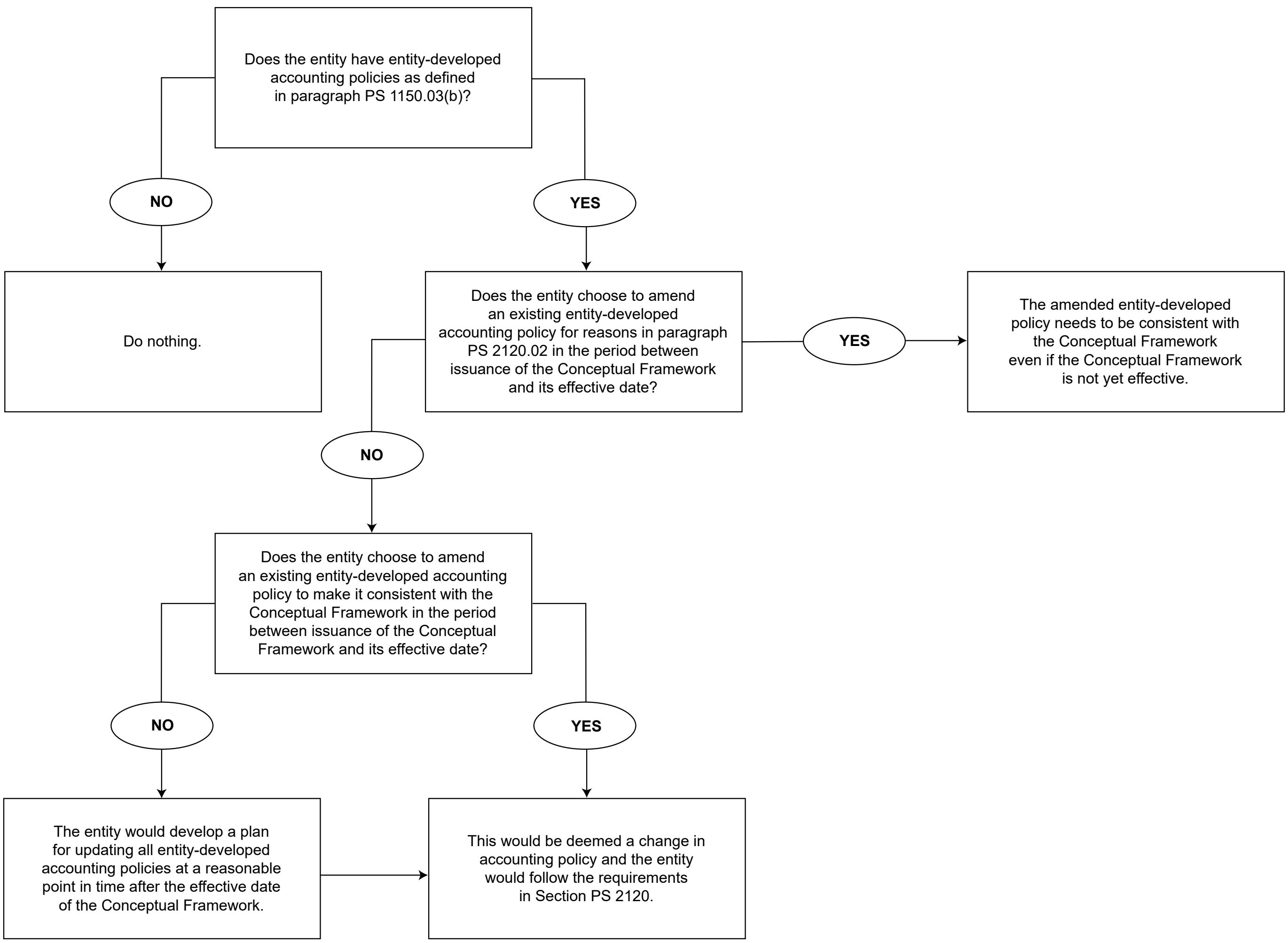
(c) Is the entity-developed accounting policy related to circumstances material[26] to the entity?

(d) Would updating the entity-developed accounting policy lead to a material difference in the accounting?

26 The concept of materiality is discussed in paragraphs 7.40-7.44 of the Conceptual Framework.

BC CA.22 Since the Conceptual Framework will be effective at the same time as FINANCIAL STATEMENT PRESENTATION, Section PS 1202, but published prior to Section PS 1202, PSAB encourages preparers to use this time to review their entity-developed accounting policies.

BC CA.23 The following decision tree provides additional guidance in relation to the decisions for updating existing entity-developed accounting policies only. Refer to Section PS 1150 for guidance in relation to developing new entity-developed accounting policies.



Amendments to Section PS 1201

BC CA.24 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, will be published in the PSA Handbook after the Conceptual Framework is published. As a result:

(a) References to FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, in FINANCIAL STATEMENT PRESENTATION, Section PS 1201, will also need to be updated as Section PS 1201 will remain in the PSA Handbook until it is replaced with Section PS 1202 and the effective date of Section PS 1202 has passed.

(b) Certain paragraphs that are intended to be included in Section PS 1202 are first being included in Section PS 1201. This means the PSA Handbook will be complete during the period between publishing the Conceptual Framework (and withdrawing Sections PS 1000 and PS 1100) and the effective date of Section PS 1202.

Other Amendments

BC CA.25 In addition to the above amendments:

(a) The “recognition” and “derecognition” definitions were removed from the glossary of FINANCIAL INSTRUMENTS, Section PS 3450, as they are defined for the PSA Handbook as a whole in Chapter 9 of the Conceptual Framework.

(b) An amendment was made to GOVERNMENT TRANSFERS, paragraph PS 3410.05(e), note 4, to recognize that through recent narrow-scope amendments and the issuance of PUBLIC SECTOR GUIDANCE (PSG) 8, *Purchased Intangibles*, the PSA Handbook now allows recognition of purchased intangibles. It also notes that the remaining exclusions from recognition are relocated from the superseded conceptual framework to FINANCIAL STATEMENT PRESENTATION, Section PS 1201.

(c) A footnote was added to GOVERNMENT REPORTING ENTITY, paragraph PS 1300.08, to ensure consistency of understanding of how the word “power” is used in Section PS 1300 contrasted with how the term is used in Chapter 5 of the Conceptual Framework.

BC CA.26 It should be noted that PSAB considered updating MEASUREMENT UNCERTAINTY, Section PS 2130 to note that all references to measurement uncertainty actually reflected only estimation uncertainty and not realization uncertainty. This would have been consistent with Chapter 9 of the Conceptual Framework, which outlined that measurement uncertainty includes realization uncertainty and estimation uncertainty. However, some respondents noted that Section PS 2130 does not state that it deals only with estimation uncertainty and preparers may consider other factors, such as realization uncertainty, when applying Section PS 2130. Given that the proposed consequential amendments could result in unintended changes in amounts recognized in financial statements, PSAB decided not to amend Section PS 2130.

Existence Uncertainty, Derecognition and Contingent Liabilities

BC CA.27 Stakeholders raised concerns that the descriptions of existence uncertainty and the general derecognition criteria in Chapter 9 of the Conceptual Framework were inconsistent with the existence uncertainty description and derecognition guidance in CONTINGENT LIABILITIES, Section PS 3300. The Conceptual Framework does not override GAAP. However, PSAB concluded the concerns raised were essentially whether the differences perceived created inconsistencies between GAAP and the Conceptual Framework. The Board concluded that:

(a) A paragraph should be added to Chapter 9 of the Conceptual Framework to indicate that individual standards may provide guidance as to how existence uncertainty should be evaluated for a particular financial statement item.

(b) In Chapter 9 of the Conceptual Framework, existence uncertainty deals with the question of whether an item, transaction or other event meets the definition of an element. Guidance in Section PS 3300 and CONTINGENT ASSETS, Section PS 3320, explains how to evaluate existence uncertainty in relation to specific financial statement items (i.e., possible obligations and possible assets, respectively). The description of existence uncertainty in Sections PS 3300 and PS 3320 relate to making the assessment of the likelihood of conditions at the reporting date being resolved such that possible obligations or possible assets could be recognized at the reporting date. These specific standards describe how existence uncertainty would be examined to determine if there is sufficient evidence for a contingent liability or a contingent asset (i.e., included in the measurement of a contingent liability in accordance with paragraph PS 3300.25) to be recognized.

(c) PSAB's intent in identifying general derecognition criteria in the Conceptual Framework was that they would apply only when the Board has not pronounced within GAAP specific derecognition requirements for a particular financial statement item. The intention was not to align all derecognition requirements in PSAS with the Conceptual Framework. For some financial statement items derecognition principles are necessarily more complex and tailored to the nature of the item; for example, the guidance related to the derecognition of a financial liability in FINANCIAL INSTRUMENTS, paragraphs PS 3450.042-.051, or the guidance related to derecognition of contingent liabilities in Section PS 3300. General derecognition criteria are new to the PSA Handbook. However, the Board concluded that in practice entities likely already apply the converse of the general recognition criteria for derecognition in relation to items for which PSAS provide no specific guidance on derecognition.

BC CA.28 Contingent assets and contingent liabilities present distinct challenges because of the uncertainty associated with them, and so PSAB addressed these challenges directly in GAAP.