



Consultation Paper II

PSAB's Government Not-for-Profit Strategy

January 2021

COMMENTS TO PSAB MUST BE RECEIVED BY
May 12, 2021

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

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This Consultation Paper is intended to obtain further input from stakeholders on the Public Sector Accounting Board's (PSAB) Government Not-for-Profit Strategy project.

Comments from individuals, governments and organizations are welcome on all aspects of the Consultation Paper and in particular, comments in response to the specific question asked. Comments are requested from those who agree with the Consultation Paper as well as those who do not. Comments are most helpful if they relate to specific paragraphs or group of paragraphs. Any comments that express disagreement with any of the statements in this Consultation Paper should clearly explain the issue, supported by specific reasoning. All comments PSAB receives will be available on the website shortly after the comment deadline unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

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EXECUTIVE SUMMARY

Highlights

In its 2017-2022 strategic plan, the Public Sector Accounting Board (PSAB) wanted to implement a public sector not-for-profit organization (NFPO) strategy that meets the public interest. When government not-for-profit organizations (GNFPOs) adopted Public Sector Accounting Standards (PSAS) in 2012, specific not-for-profit accounting standards were incorporated into the CPA Canada Public Sector Accounting (PSA) Handbook (the PS 4200 series). Some organizations have used these specific accounting standards while others have not. This has created reporting differences between comparable GNFPOs.

As a result, PSAB wanted to assess the specific needs of public sector NFPOs and determine if some PSAS should be applied differently to this group.

In May 2019, PSAB issued the first of two Consultation Papers. “Government Not-for-Profit Consultation Paper” (Consultation Paper I) focused on gaining a better understanding of the public sector not-for-profit landscape and determining what the GNFPOs’ unique financial reporting needs might be.

The purpose of Consultation Paper I was threefold:

- to describe the not-for-profit landscape, both nationally and internationally;
- to report back on the results of the 2017-2018 consultations with more than 100 not-for-profit stakeholders; and
- to seek feedback on key matters to help PSAB develop a Government Not-for-Profit (GNFP) Strategy.

The key matters for feedback included:

- learning about future trends GNFPOs will face;
- confirming what key financial reporting issues GNFPOs deal with; and
- asking whether GNFPOs should:
 - report on the same basis as governments (i.e., use the same accounting standards and same reporting model);
 - report on the same basis as all GNFPOs; or
 - provide comparable financial information as NFPOs within the same subsector.

The purpose of this Consultation Paper (Consultation Paper II) is to:

- summarize the feedback to Consultation Paper I;
- describe the options considered for a GNFP Strategy;
- describe the decision-making criteria used to evaluate the options; and
- propose a GNFP Strategy.

PSAB received 37 response letters representing the views of 116 respondents to Consultation Paper I. Based on these responses, the Board defined the following decision-making criteria to evaluate a range of GNFP Strategy options:

- users of GNFPO financial statements and their needs;

- comparability of GNFP financial statements;
- consistency of GNFP financial statements;
- sustainability of the strategy; and
- transitional considerations.

PSAB proposes that GNFPs should apply Option 2 – PSAS incorporating the PS 4200 series with potential customizations as the strategy going forward. As part of this proposal, the existing standards in the PS 4200 series would be reviewed to determine if they should be retained and added to PSAS. This may involve amending standards to update them and ensure consistency with PSAB’s conceptual framework. Also, PSAB would be able to provide customized solutions for GNFPs if it identifies substantive and distinct accountabilities warranting a modification of existing PSAS.

A key feature of this option is that there is no longer a suite of standards that GNFPs could choose to apply or not. Instead, customizations might be permitted within a standard specific to GNFPs, if PSAB determines that substantive and distinct accountabilities warrant a modification of existing PSAS.

In addition, stakeholders are encouraged to review the [Exposure Drafts “The Conceptual Framework for Financial Reporting in the Public Sector”](#) and [“Financial Statement Presentation, Proposed Section PS 1202”](#) to understand the proposals and consider the implications for GNFPs. The changes PSAB proposed in its [Concepts Underlying Financial Performance](#) project are fundamental to Option 2. These proposals were developed considering all public sector entities that apply the PSA Handbook, including GNFPs. The proposed Conceptual Framework sets the foundation for financial reporting. A benefit of these proposals is that they would help to alleviate some of the reporting challenges GNFP stakeholders raised. Having a common reporting model¹ with the ability to provide customized solutions when appropriate will improve the relevance and understandability of the financial statements. Stakeholders are invited to provide feedback and analysis based on the full scope of the work in progress.

Finally, PSAB is aware that stakeholders identified several topics that require additional guidance and consideration, such as endowments and general revenue guidance. Understanding that some of these issues are a high priority for stakeholders, the Board will try to address them as soon as possible. These topics will be subject to the normal due process procedures when the Board’s resources and priorities permit.

What is next?

PSAB expects to be in a position to decide on the future of its GNFP Strategy by late fall 2021, once it has considered all responses to Consultation Paper II. When it has decided, the Board will explain the reasoning for its future GNFP Strategy through various communication channels.

1 A common reporting model refers to the reporting model as proposed in PSAB’s Exposure Draft, “Financial Statement Presentation, Proposed Section PS 1202.”

Comments requested

PSAB welcomes comments from individuals, governments and organizations on all aspects of Consultation Paper II. The Board seeks responses to the following question:

Considering the criteria and options described in Consultation Paper II, do you agree the proposed option (see paragraphs .074-.078) best meets the Canadian public interest? Please explain.

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

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INTRODUCTION

Background

001. PSAB's strategic plan outlines the broad strategic objectives that will guide it to achieving its public interest mandate over a multi-year period. The fifth strategy of the [2017-2022 Strategic Plan](#), "Implement a public sector not-for-profit organization strategy that meets the public interest," reflects the Board's commitment to understanding the needs and concerns of public sector not-for-profit stakeholders. The Board wants to work with stakeholders to ensure PSAS are relevant and understandable for GNFP financial statements users.
002. Over the 2017-2020 period, PSAB:
- researched the not-for-profit landscape, both nationally and internationally;
 - consulted with GNFP stakeholders through an extensive outreach initiative to encourage participation and learn about their concerns and challenges;
 - published Consultation Paper I that:
 - described the national and international landscape;
 - reported back on the outreach results; and
 - sought feedback on key matters.
003. With the issuance of Consultation Paper II, PSAB expects to decide on its GNFP Strategy by late fall 2021.

Purpose

004. The purpose of this Consultation Paper is to:
- (a) summarize the feedback to Consultation Paper I;
 - (b) describe the options considered for a GNFP Strategy;
 - (c) describe the decision-making criteria used to evaluate the options; and
 - (d) propose a GNFP Strategy.

GNFP Strategy project timeline

005. Responses to this Consultation Paper are due by May 12, 2021.

006. PSAB will evaluate the feedback received and expects being in a position to decide on its GNFP Strategy by late fall 2021.
007. PSAB will communicate the rationale for its decisions through various communication channels, such as releasing an In Brief article.
008. Once the GNFP Strategy has been decided, the next phase of the project will be implementation of the strategy. This will involve standard-level projects that will be subject to PSAB's due process and will be based on the Board's resources and priorities.

FEEDBACK TO CONSULTATION PAPER I

009. PSAB released "Government Not-for-Profit Consultation Paper" (Consultation Paper I) in May 2019 with comments due by September 30, 2019.
010. In total, PSAB received 37 letters from 116 respondents to Consultation Paper I, with some being joint responses.
011. The feedback highlighted that GNFPs assist a government in meeting its objectives by providing essential public goods and services. From this perspective, GNFPs are equally accountable to the public and its elected representatives as they are to governments. On the other hand, GNFPs do not have the same operational structures and requirements as governments.
012. Responses were mixed regarding comparability with respect to whether GNFPs and governments or GNFPs across all subsectors should apply the same accounting and reporting standards. In many cases, one of the primary arguments for and against using the same accounting and reporting standards was based on the GNFP financial statements users and their needs. The responses indicated that the entity's financial statement users and their needs should provide the basis for what financial information is reported.
013. Some responses suggested the users of a GNFP's financial statements were similar to users of a government's financial statements. Other responses suggested they were different. Furthermore, some responses suggested that there might be different users among the GNFP subsectors.
014. Responses were also mixed as to whether the controlling government should be considered a primary user of GNFP financial statements because of its ability to access financial information as needed.
015. Regarding comparability with private sector NFPOs, again responses were mixed and seemed dependent on the subsector. For example, all responses from both universities and colleges indicated support for providing comparable financial information. Responses from other subsectors included some in support and some not in support of providing comparable financial information.
016. Some responses also indicated that smaller GNFPs may experience greater challenges trying to apply complex accounting and reporting standards. Some stakeholders felt that simplifying reporting requirements would help, to the extent possible. It would make the financial statements easier to explain.
017. Responses raised several issues that are on the horizon, such as climate change, the impact of technology and cryptocurrencies. All governments are facing these new or increasing trends. However, the impact of these issues or the challenges that they present might be intensified for GNFPs.
018. Many responses identified several key financial reporting concerns. Some of these key financial reporting concerns included:
 - endowments;

- fund accounting;
 - net debt;
 - intangible assets;
 - revenue recognition;
 - deferred capital contributions; and
 - balanced-budget legislation.
019. As discussed [below](#), the proposed financial statement presentation developed by PSAB's [Concepts Underlying Financial Performance Task Force](#) is expected to help alleviate some of these concerns. For this reason, stakeholders are encouraged to read the Exposure Drafts as well as this Consultation Paper to understand the full scope of this work.
020. Other concerns may be alleviated by existing guidance in the PSA Handbook. For example, SEGMENT DISCLOSURES, Section PS 2700, might address fund accounting concerns.
021. The remaining concerns will require a standards-level project to determine the appropriate accounting and reporting guidance, as per PSAB's due process. Once a GNFP Strategy is decided, the next phase of this project would be to begin standards-level projects for these key topics, based on the Board's resources and priorities.

Approach to developing a strategy

022. PSAB formed the [GNFP Strategy Committee](#) to help assess the responses to Consultation Paper I. The Committee also helped identify and evaluate potential options for a GNFP Strategy for the Board's consideration.
023. Some responses to Consultation Paper I suggested that GNFPs be allowed a choice of generally accepted accounting principles (GAAP) or accounting frameworks when preparing their financial statements. The advantage of allowing a choice is that a GNFP could choose the accounting framework that it feels would be most beneficial to its financial statements users. There is precedent in the PSA Handbook to allow an entity a choice to apply another accounting framework if the PSA Handbook does not meet its financial statement users' needs. That alternative accounting framework currently permitted in the PSA Handbook, for other government organizations (OGOs), is the standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting, IFRS® Standards. Specific factors must be considered (detailed in paragraph .20 of the Introduction to Public Sector Accounting Standards) when determining the most appropriate standards to be applied. Another example in the PSA Handbook of allowing a choice pertains to GNFPs in that they can choose to apply PSAS with or without the PS 4200 series when preparing their financial statements.
024. However, one of the main criticisms of the current practice is the diversity in accounting frameworks being applied. The concern with allowing different accounting frameworks lies in the comparability and understandability of information. The more frameworks being used, the more difficult it is to understand the results. If a choice is permitted, some GNFPs may be mandated or legislated by their controlling government as to which accounting framework to apply while others may not. This inconsistency will reduce comparability among GNFPs and impair understandability of financial statements.
025. After much consideration, the GNFP Strategy Committee concluded that a choice of GAAP is not desirable as it reduces comparability and understandability of financial statements. Having said that, the Committee maintains that considering the status quo as an option is appropriate given the familiarity users have with current practice and at least the standards to choose from are all within the PSA Handbook.

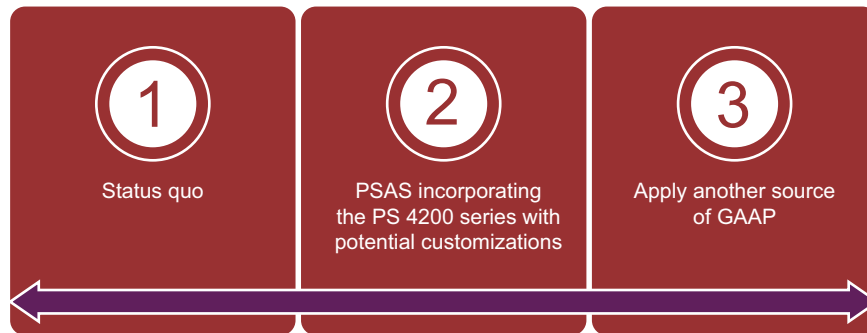
Consideration of potential reporting model changes

026. Some stakeholders have indicated that PSAS-based financial statements, especially when prepared without the PS 4200 series, are not relevant for GNFPO financial statement users. As noted in the 2017-2018 consultations and the feedback to Consultation Paper I, some of the concerns raised with the current reporting model include:
- information in the financial statements is not in an easy-to-understand format for non-accountants or non-financial experts; and
 - the amount of information presented in the financial statements, especially in the notes, is overwhelming.
027. Specifically:
- Many responses indicated that the net debt indicator was not useful and, in fact, diminished the understanding of the statement of financial position.
 - Many responses indicated that fund accounting provided relevant information to financial statement users.
 - Many responses indicated that additional guidance for specific issues, such as endowments and deferred capital contributions were needed.
028. PSAB's Exposure Draft, "[Financial Statement Presentation, Proposed Section PS 1202](#)," considers all public sector entities that apply the PSA Handbook, including GNFPOs. These proposals have been developed based on the foundation proposed in the Conceptual Framework. A benefit of these proposals is that they would help to alleviate some of the concerns GNFPO stakeholders raised.
029. Specifically, the Exposure Draft proposes to:
- rename the net debt indicator as "net financial liabilities", a term that may be more understandable to GNFPOs;
 - add a classification to liabilities to distinguish between financial liabilities and non-financial liabilities, which is expected to make the calculation of net financial liabilities more meaningful, easier to understand and more relevant for GNFPOs;
 - create a component of net assets or net liabilities that PSAB can consider in the future as a tool for resolving standards-level issues (such as endowments), which will help address complex and unique issues that GNFPOs must consider; and
 - relocate the net financial liabilities indicator to its own statement and restructure the statement of financial position so that all assets are presented together to make the statement more understandable to all users. This will improve the financial statement usefulness and understandability for GNFPO users.
030. PSAB is also aware that balanced-budget legislation can create challenges for public sector entities. However, as noted in Consultation Paper I, the Board has concluded that influencing provincial regulatory mandates and requirements, or developing standards according to them, falls outside the scope of the Board's standard-setting authority. Balanced-budget requirements are specific to each jurisdiction and, in some cases, each subsector. Therefore, general purpose financial statements cannot accommodate jurisdiction-specific financial reporting requirements.
031. Furthermore, PSAB's conceptual framework acknowledges that financial statements represent one means of reporting to demonstrate a public sector entity's public accountability. Ideally, reporting by a public sector entity would comprise multi-dimensional accountability reporting that, in addition to an entity's financial statements, also includes other information about an entity's financial condition, including:
- (a) future-oriented sustainability;
 - (b) supplementary financial performance; and

- (c) non-financial performance.

THE OPTIONS

032. PSAB considered the following options to determine an appropriate GNFP Strategy. What follows is a detailed description of each option.



Defining the options

Option 1 – Status quo

033. Status quo is defined as continuing with the existing practice as detailed in the PSA Handbook. GNFPs would apply PSAS with or without the PS 4200 series.
034. Paragraph .18 of the Introduction to PSAS notes:
- For purposes of preparing general purpose financial statements, government not-for-profit organizations apply the standards for not-for-profit organizations in the PSA Handbook or the standards in the PSA Handbook without Sections PS 4200 to PS 4270 (the PS 4200 series).
035. The current practice would continue, allowing GNFPs to apply PSAS either with or without the PS 4200 series.
036. Under this option, the existing standards within the PS 4200 series would be subject to review and amendments as standard setting is an evolutionary process building on research, widespread experimentation and practical experience. New standards may also be developed and included within the PS 4200 series. These standard-setting projects would be subject to PSAB's due process and dependent on the Board's resources and priorities. Any standards within the PS 4200 series would only be applicable to those GNFPs that choose to apply the PS 4200 series.
037. Based on PSAB's understanding of the GNFP landscape, approximately 60 per cent of GNFPs use not-for-profit-specific accounting requirements, largely from the PS 4200 series. This information is based on the Board's 2020 joint research project with the Accounting Standards Board (AcSB) to better understand the Canadian not-for-profit sector.
038. Also based on PSAB's understanding, some GNFPs have been mandated by their controlling government to apply PSAS or PSAS with the PS 4200 series.
039. For this option to be viable, the definition of a GNFP must be maintained so specific organizations can be directed to apply the PS 4200 series.

Option 2 – PSAS incorporating the PS 4200 series with potential customizations

040. PSAS incorporating the PS 4200 series with potential customizations is defined as reviewing

and amending, as appropriate, the PS 4200 series guidance and incorporating it within the PSA Handbook available for all public sector entities to apply if appropriate. That is, the existing standards in the PS 4200 series would be reviewed to determine if they should be retained and added to PSAS. This may involve amending standards to update them and ensuring consistency with PSAB's conceptual framework.

- 041. In addition, PSAB would be able to provide some customizations within PSAS specific to GNFPOs to meet any special accommodations GNFPOs may require in demonstrating accountability to their users. These may include accounting and/or reporting customizations. For example, a few responses to Consultation Paper I suggested smaller GNFPOs may not have the same resources and complex operations as larger GNFPOs and might benefit from reduced disclosures. If the Board identifies substantive justification for reduced disclosures, the development of this potential customization would be subject to its due process.
- 042. A key feature of this option is that there is no longer a suite of standards that GNFPOs could choose to apply or not. Instead, customizations might be permitted within a standard specific to GNFPOs if PSAB determines there are substantive and distinct accountabilities that warrant a modification from PSAS.
- 043. Incorporation of the updated or amended PS 4200 series within the PSA Handbook would then be available to any public sector entity that has similar type transactions. This may help alleviate some of the concerns noted in the responses to Consultation Paper I. For example, those OGOs that are similar to a GNFPO except they do not have a private sector counterpart could apply the standard if it has similar type transactions.
- 044. An important consideration under this option is PSAB's Exposure Draft, "[Financial Statement Presentation, Proposed Section PS 1202](#)," which considers all of the public sector entities that apply the PSA Handbook, including GNFPOs. As discussed earlier, a benefit of these proposals is that they would help to alleviate some of the concerns GNFPO stakeholders raised.
- 045. Namely, a common reporting model for all public sector entities would be applied and used as a benchmark from which PSAB can deviate if appropriate. This might improve the financial statements' qualitative characteristics, including the balance to be achieved between the qualitative characteristics.
- 046. For this option to be viable, the definition of a GNFPO must be maintained so specific organizations can be directed to apply the customizations if permitted.

Option 3 – Apply another source of GAAP

- 047. Applying another source of GAAP considers two possible approaches. The first (Option 3A) pertains to all GNFPOs. The second (Option 3B) pertains to specific GNFPO subsector(s).
- 048. For Option 3A, the Introduction to PSAS would direct GNFPOs to follow Part III of the CPA Canada Handbook – Accounting, Standards for Not-for-Profit Organizations, using Part II of the CPA Canada Handbook – Accounting, Standards for Private Enterprises as reference standards. This approach was taken for GNFPOs prior to 2012 when they were directed to follow private sector standards.
- 049. For Option 3B, the Introduction to PSAS would identify and direct a specific GNFPO subsector(s) to follow Part III of the Handbook, using Part II of the Handbook as reference standards.
- 050. Under this option, if a specific GNFPO subsector(s) is directed to Part III of the Handbook, it is assumed that those subsectors directed to apply PSAS would apply Option 2, PSAS incorporating the PS 4200 series with potential customizations.
- 051. This option would help address the concerns for specific subsectors where comparative financial information with their private sector counterparts is considered vital.
- 052. For this option to be viable, the definition of a GNFPO must be maintained so GNFPOs or a

specific GNFP subsector(s) can be directed to apply another source of GAAP.

THE DECISION-MAKING CRITERIA

053. To evaluate the options, PSAB applied the following criteria:

- (a) Users of financial statements:
 - (i) Group 1 users
 - (ii) Group 2 users
 - (iii) Group 3 users
- (b) Comparability:
 - (i) Between governments and GNFPs
 - (ii) Between GNFPs across all subsectors
 - (iii) Between GNFPs and private sector NFPOs
- (c) Consistency:
 - (i) Between similar type transactions
 - (ii) In interpretation of standards
- (d) Sustainability
- (e) Transitional considerations

054. [Appendix A](#) has a detailed description of the decision-making criteria.

EVALUATING THE OPTIONS

055. PSAB has applied the decision-making criteria to the three GNFP Strategy options. [Appendix B](#) has a high-level analysis of the criteria and [Appendix C](#) has a detailed evaluation of each option using all the criteria.

056. Of the decision-making criteria, comparability of financial information was considered most important to GNFP financial statements users. It was noted that comparability requires consistent accounting standards for similar type transactions and consistent application of accounting standards from one period to another. When contemplating comparability, one must consider what needs to be comparable and for whom the comparability is sought. The answer depends on each user's perspective. Therefore, the responses to Consultation Paper I were mixed as to whether GNFPs should use the same accounting and reporting standards as governments, other GNFPs or private sector NFPOs.

057. Summarized from Appendix B, Table 1 assesses whether the comparability criterion is met under each of the three options.

TABLE 1

Comparability	Option 1 – Status quo	Option 2 – PSAS incorporating the PS 4200 series with potential customizations	Option 3 – Apply another source of GAAP
Between government and GNFPs	No. However, GNFPs that do not apply the PS 4200 series would be comparable to government.	Yes. It may depend on the extent of customizations permitted.	No. However, specific subsectors that apply PSAS would be comparable to government.
Between GNFPs across all subsectors	No	Yes. It may depend on the nature of customizations permitted.	Yes. However, under Option 3B, there would be comparability between those subsectors that apply PSAS and there would be comparability between those subsectors that are directed to another source of GAAP.
Between GNFPs and private sector NFPOs	No	No. It depends on the nature of the customizations.	Yes. However, if only specific subsectors apply another source of GAAP, those subsectors that apply PSAS may not have comparable information with their private sector counterparts.

058. The sustainability of each option was considered the other important criterion. That is, the option chosen would need to respond to current needs and be flexible enough to address needs that may arise in the long term. Part of this consideration was PSAB’s May 5, 2020, International Strategy decision to adapt International Public Sector Accounting Standards (IPSAS) principles when developing future PSAS. IPSAS do not provide guidance for NFPOs, therefore, the Board would need to ensure appropriate guidance is available for these stakeholders. This criterion considers the Board’s ability to address topics and issues that might arise.

059. Table 2 summarizes the options with regards to the sustainability criterion.

TABLE 2

Sustainability	Option 1 – Status quo	Option 2 – PSAS incorporating the PS 4200 series with potential customizations	Option 3 – Apply another source of GAAP
Sustainability	Moderate. PSAB would retain the ability to address issues specific to GNFPs. However, maintaining a separate set of standards creates challenges.	High. PSAB would retain the ability to address issues specific to GNFPs and be able to provide customized solutions within a common framework that will help consider the practicality of issues.	Low to moderate. Directing some or all GNFPs to another source of GAAP limits PSAB’s ability to address issues.

OTHER CONSIDERATIONS

060. While considering the three options identified for a potential GNFP Strategy, consideration was also given to the current GNFP definition and the existing PS 4200 series standards.

GNFP definition

- 061. Some responses to Consultation Paper I suggested that the GNFP definition and, therefore, classification may no longer be needed. It was noted that the line between a GNFP and an OGO is becoming blurred due to the nature and purpose of government organizations being established.
- 062. It was also noted that the current definition of a GNFP as defined in the PSA Handbook differs from that of a private sector NFPO in Part III of the Handbook. The GNFP definition includes a criterion that the entity must have a private sector counterpart. This criterion has resulted in some public sector entities, which are similar to GNFPs in all other respects, unable to classify themselves as a GNFP because they do not have a private sector counterpart. As a result, they are currently unable to apply the PS 4200 series.
- 063. PSAB also learned that some jurisdictions have chosen not to use the classifications. Instead, all public sector entities are considered taxpayer supported and part of the government reporting entity.
- 064. Although all three options would require keeping the GNFP definition and classification, the impact of applying the definition under the three options varies.
- 065. Under Option 1, the current difficulties public sector entities experience would continue unless the definition were revisited at some point. Those entities that are similar to a GNFP but do not have a private sector counterpart would be unable to apply the PS 4200 series.
- 066. Under Option 2, since the PS 4200 series would be reviewed and amended as appropriate and then incorporated into PSAS, the guidance would be available to any public sector entity with similar type transactions. It is only the customizations that might be permitted within a standard that would be limited to GNFPs.
- 067. Under Option 3, the GNFP classification is needed to define the sector or subsectors that would be directed to another source of GAAP.

PS 4200 series

068. Another consideration related to the existing PS 4200 series of standards is the efficiency and effectiveness of maintaining two sets of the standards (PSAS and the PS 4200 series). This latter set of standards was based on the standards permitted for NFPOs in the CPA Canada Handbook – Accounting to help ease the transition for GNFPs to apply the PSA Handbook. Initially, the PS 4200 series and the standards permitted for NFPOs in the CPA Handbook were fairly aligned.
069. Over the years, the standards permitted for NFPOs in the CPA Handbook have been amended and there are various technical projects in process. PSAB has made minimal amendments to the PS 4200 series over the same period. Instead, PSAB has consulted with GNFP stakeholders to better understand the landscape. As a result of the different priorities, the alignment between these two sets of standards has been disappearing.
070. Furthermore, maintaining a separate set of standards creates challenges and can result in duplicate standards. For example, TANGIBLE CAPITAL ASSETS, Section PS 3150, and CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4230, are similar.
071. Under Option 1, the PS 4200 series would be kept. As mentioned earlier, these standards would need to be reviewed and possibly amended as standard setting is an evolutionary process building on research, widespread experimentation and practical experience, subject to PSAB's resources and priorities.
072. Under Option 2, the duplication of standards would be removed as all public sector entities would apply PSAS. Within PSAS, there would be possible customized solutions for GNFPs if appropriate.
073. Under Option 3, the duplication of standards would be removed. In the case that specific subsectors are directed to another source of GAAP, those subsectors that follow PSAS would then fall under Option 2.

RECOMMENDATION

074. PSAB proposes as its Government Not-for-Profit Strategy, Option 2 – PSAS incorporating the PS 4200 series with potential customizations. This recommendation resulted from:
- a thorough analysis of the feedback received to Consultation Paper I; and
 - the evaluation of the three options against the decision-making criteria identified.
075. PSAB has also determined that the Board, subject to its own due process, should incorporate the PS 4200 series into PSAS, after a thorough review of the existing standards to ensure consistency with PSAB's conceptual framework. This is based on the Board's expectation its proposed Conceptual Framework will set a foundation for financial statement presentation that could help to alleviate some of the GNFP stakeholders' concerns raised during the 2017-2018 consultations and in response to Consultation Paper I.
076. In developing proposed Section PS 1202, on financial statement presentation, PSAB's Concepts Underlying Financial Performance Task Force considered all stakeholder groups. The proposed common reporting model for all public sector entities that apply the PSA Handbook would be applied and used as a benchmark from which the Board can deviate if appropriate.
077. A key feature of this option is that if and when PSAB identifies substantive and distinct accountabilities warranting special consideration from a pure PSAS model, the Board could develop a customized solution specific to GNFPs, subject to its due process.
078. Also, the guidance retained and incorporated into PSAS from the PS 4200 series standards will be available for all public sector entities that have similar type transactions.

APPENDIX A: DEFINING THE CRITERIA

079. In determining the GNFP Strategy that best serves the public interest, PSAB has identified key criteria for evaluating the range of options. The key criteria are based on the issues raised in the Consultation Paper I and feedback to them. The key criteria include:
- (a) Users of financial statements:
 - (i) Group 1 users
 - (ii) Group 2 users
 - (iii) Group 3 users
 - (b) Comparability:
 - (i) Between governments and GNFPs
 - (ii) Between GNFPs across all subsectors
 - (iii) Between GNFPs and private sector NFPOs
 - (c) Consistency:
 - (i) Between similar type transactions
 - (ii) In interpretation of standards
 - (d) Sustainability
 - (e) Transitional considerations

Criteria 1 – Financial statement users and their needs

080. It is important and necessary to identify the primary users of a GNFP's financial statements and determine their needs. This will ensure that the strategy developed will be in the public interest.
081. Considering financial statement users was emphasized in the responses to Consultation Paper I. GNFP financial statement users will be considered from three user-group perspectives:
- **Group 1** – Users who require financial statements from GNFPs and use the information for decision-making, accountability, auditing or consolidation purposes.
 - **Group 2** – Users who have access to the financial statements but may rely more on other sources of information, such as the annual report, to assess a GNFP's performance.
 - **Group 3** – Users who have characteristics of Group 1 and Group 2 users, such as the controlling government.
082. Users in Group 1 likely have access to or the ability to request additional information that is not found in general purpose financial statements. Examples include management, board members and government ministries.
083. Users in Group 2 are likely interested in specific information rather than the overall financial results of the organization. Examples include taxpayers, service recipients, donors, employees, unions, rating agencies, suppliers, media and advocacy groups.
084. Users in Group 3 have access to or the ability to request additional information that is not found in general purpose financial statements. They may be interested in specific information to make resource-allocation decisions. An example is the controlling government. It requires information to make funding decisions and information to prepare the consolidated financial statements for the reporting entity overall, as well as information for accountability purposes to ensure funds have been used as intended.

Criteria 2 – Comparability

085. Comparability enables users to identify similarities and differences between the information provided by two sets of financial statements of the same or different entities.
086. The need for comparable financial information varies depending on the organizations for which a user is comparing financial information and why.
087. With respect to GNFPs, as mentioned in Consultation Paper I, comparability needs to be considered from three perspectives:
- (a) **Comparability between government and GNFPs** – The main objective of financial reporting by public sector entities is accountability. GNFPs assist a government in meeting its objectives by providing essential public goods and services. Therefore, accountability and public interest are key objectives, similar to governments. Furthermore, given the controlling government is ultimately responsible for all entities within its reporting entity, it is important to ensure evaluations of those entities are based on the same foundation.
 - (b) **Comparability between GNFPs across all subsectors** – A GNFP's purpose is to deliver services on behalf of a controlling government. Given GNFPs are within the government reporting entity, they are ultimately accountable to taxpayers and, by extension, elected representatives. As a result, it is important to be able to compare various GNFPs within an individual reporting entity and across government reporting entities.
 - (c) **Comparability between GNFPs and private sector NFPOs** – Some private sector NFPOs have similar purposes as those in the public sector. In these instances, financial statement users might wish to compare a public sector organization's financial information with that of a private sector organization in order to make informed decisions (e.g., resource allocation, research investment or enrollment).

Criteria 3 – Consistency

088. Consistent information is vital when making decisions.
089. To make comparisons meaningful, information needs to be prepared on a consistent basis, from one accounting period to another and from one organization to another.
090. **Consistency between similar types of transactions** – Generally, similar transactions should be recognized and reported in a consistent manner. However, it is important to remember that differences in an entity's financial reporting may reflect the different nature of their operations. For example, differences exist between the private and public sectors and the accounting standards reflect these different characteristics.
091. **Consistency in interpretation of standards** – Selecting appropriate accounting policies and disclosures requires professional judgment. As a result, different interpretations may be made. These differences are often evident with new standards but over time as experience is gained with the standards and practice is developed, the magnitude of variations tends to decline. Nevertheless, clarity in the understanding and application of accounting standards among different transactions should enable consistency in the interpretation of standards.

Criteria 4 – Sustainability

092. To ensure that the strategy chosen will be in the public interest, PSAB must contemplate the financial accounting and reporting challenges of today and anticipate future changes. This evaluation may include changes in operations and service delivery. For example, it has been noted that the lines between OGOs and GNFPs is becoming blurred. The anticipation of future needs may also include accounting guidance on issues such as climate change, the impact of

technology and cryptocurrencies. When evaluating the possible options, an option's viability and flexibility to endure changes and challenges as well as issues that may arise in the near and long term must be considered.

093. Finally, to ensure the strategy chosen can be sustained, PSAB needs to be able to address stakeholders' needs and concerns in a timely manner.

Criteria 5 – Transitional considerations

094. Any strategy needs to ensure that the benefits associated with changing from current practice outweigh the expected costs. Any change from current practice will impact both preparers and auditors as they would need to apply (preparers) and understand (auditors) a new accounting framework or new accounting standards. Depending on the strategy chosen, PSAB will need to commit resources to ensure the strategy is implemented in a suitable manner. If appropriate, the Board will need to consider key topics and issues for its technical agenda based on its available resources and priorities.

APPENDIX B: SUMMARY OF OPTIONS

Table 3 summarizes the GNFP Strategy options by decision-making criteria and is based on the detailed evaluation in Appendix C. This table is used as the basis for [Tables 1 and 2](#) provided in paragraphs .057 and .059.

TABLE 3

Option 1 – Status quo		
Status quo is defined as continuing with the existing practice as detailed in the PSA Handbook. GNFPs would apply PSAS with or without the PS 4200 series.		
Criteria	Description	Analysis
Criteria 1 – Users	All groups	<ul style="list-style-type: none"> Current diversity in practice would continue. Multiple accounting frameworks impair the usefulness and relevance of the general purpose financial statements.
Criteria 2 – Comparability	Between government and GNFPs	<ul style="list-style-type: none"> Not comparable given the choices permitted.
	Between GNFPs across all subsectors	<ul style="list-style-type: none"> Not comparable. Only possible if all or no GNFPs choose to apply the PS 4200 series.
	Between GNFPs and private sector NFPOs	<ul style="list-style-type: none"> Not comparable because multiple frameworks allowed.
Criteria 3	Consistency	<ul style="list-style-type: none"> Not consistent because different accounting frameworks applied.
Criteria 4	Sustainability	<ul style="list-style-type: none"> Moderate sustainability. With new endeavours and possibly new financial statement users, the diversity in accounting frameworks will add an unnecessary level of complexity. However, PSAB would retain the ability to address issues specific to GNFPs. Maintaining a separate set of standards creates challenges and can result in duplication of standards.
Criteria 5	Transitional considerations	<ul style="list-style-type: none"> None. No change to current practice.

Option 2 – PSAS incorporating the PS 4200 series with potential customizations

PSAS incorporating the PS 4200 series with potential customizations is defined as reviewing and amending, as appropriate, the PS 4200 series guidance and incorporating it within the PSA Handbook available for all public sector entities to apply if appropriate. That is, the existing standards in the PS 4200 series would be reviewed to determine if they should be retained and added to PSAS.

This may involve amending standards to update them and ensuring consistency with PSAB's conceptual framework.

In addition, PSAB would be able to provide some customizations within PSAS specific to GNFPOs to meet any special accommodations they may require in demonstrating accountability to their users.

For this option to be viable, the definition of a GNFPO must be maintained so specific organizations can be directed to apply any customizations.

Criteria	Description	Analysis
Criteria 1 - Users	All groups	<ul style="list-style-type: none"> <li data-bbox="1029 680 1419 961">• A common reporting framework is applied, providing the benchmark from which to apply customizations of standards to address GNFPO-specific matters, improving the financial statements' understandability. <li data-bbox="1029 978 1419 1163">• The common reporting framework is based on the work done by PSAB's Concepts Underlying Financial Performance Task Force.²

2 PSAB's Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202."

Option 2 – PSAS incorporating the PS 4200 series with potential customizations		
Criteria 2 – Comparability	Between government and GNFPs	<ul style="list-style-type: none"> • Yes, it is comparable, given a common reporting framework. However, it depends on the nature of customizations permitted. If limited to presentation and disclosure, comparability would still be achieved.
	Between GNFPs across all subsectors	<ul style="list-style-type: none"> • Yes, it is comparable, given a common reporting framework. However, it depends on the nature of customizations permitted. If limited to presentation and disclosure, comparability would still be achieved.
	Between GNFPs and private sector NFPOs	<ul style="list-style-type: none"> • Not comparable. However, in some instances, note disclosure and schedules might be suitable to provide key financial information vital to compare to private sector counterparts.
Criteria 3	Consistency	<ul style="list-style-type: none"> • Possible consistency among all public sector entities as there would be a common set of standards.
Criteria 4	Sustainability	<ul style="list-style-type: none"> • High sustainability. Upcoming challenges and trends in the public sector apply to all public sector entities. The implications may vary between public sector entities. Being able to provide customized solutions within a common framework will help consider the practicality of issues.

Option 2 – PSAS incorporating the PS 4200 series with potential customizations

Criteria 5	Transitional considerations	<ul style="list-style-type: none"> • Some. PS 4200 series standards will be amended, if appropriate, and included in PSAS. Entities that did not apply the PS 4200 series will now have access to these amended standards that have been included in PSAS. • For customizations, it will depend on the magnitude of the customizations permitted.
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Option 3 – Apply another source of GAAP (Part III of the Handbook, using Part II of the Handbook as reference standards)

This option includes two possible approaches described below:

Option 3A – In the Introduction to PSAS, GNFPs would be directed to follow Part III of the Handbook, using Part II of the Handbook as reference standards. This approach was taken for GNFPs prior to 2012 when they were directed to follow private sector standards.

Option 3B – In the Introduction to PSAS, a specific GNFP subsector(s) would be identified and directed to follow Part III of Handbook, using Part II of the Handbook as reference standards.

Criteria	Description	Analysis
Criteria 1 – Users	All groups	<ul style="list-style-type: none"> • Option A – Multiple accounting frameworks within the public sector, which impairs the understandability for users. • Option B – Specific GNFP subsector(s) are directed to another source of GAAP. The accountability objective is better served when those organizations apply another source of GAAP. But multiple accounting frameworks remain, which impairs understandability.

Option 3 – Apply another source of GAAP (Part III of the Handbook, using Part II of the Handbook as reference standards)		
Criteria 2 – Comparability	Between government and GNFPs	<ul style="list-style-type: none"> Option A – Not comparable because multiple frameworks used within the public sector. Option B – Not comparable for the specific GNFP subsector(s) directed to apply another source of GAAP.
	Between GNFPs across all subsectors	<ul style="list-style-type: none"> Option A – Yes, it is comparable. However, accounting policy choices permitted under Part III of the Handbook could limit comparability. Option B – Not comparable. However, there would be comparable financial information between GNFPs across all subsectors that apply PSAS and for all GNFPs that are directed to another source of GAAP depending on the policy choices made.
	Between GNFPs and private sector NFPOs	<ul style="list-style-type: none"> Option A – Yes, it is comparable. However, accounting policy choices permitted under Part III of the Handbook could limit comparability. Option B – Yes, it is comparable but for only those specific GNFP subsector(s) directed to another source of GAAP and depending on the policy choices made.
Criteria 3	Consistency	<ul style="list-style-type: none"> Option A – Somewhat consistent. However, for GNFPs given choices permitted, it is possible that similar type transactions may not be accounted for consistently. Option B – Not consistent for all public sector entities.

Option 3 – Apply another source of GAAP (Part III of the Handbook, using Part II of the Handbook as reference standards)		
Criteria 4	Sustainability	<ul style="list-style-type: none"> • Option A – Low sustainability because directing GNFPOs to another source of GAAP limits PSAB’s ability to respond to issues. • Option B – Moderate sustainability because some GNFPOs would be directed to another source of GAAP. This limits PSAB’s ability to respond to issues while other GNFPOs would apply PSAS allowing PSAB to address their issues.
Criteria 5	Transitional considerations	<ul style="list-style-type: none"> • Significant, especially for those that do not apply PS 4200 series.

APPENDIX C: THE OPTIONS

Option 1 – Status quo

Overview

095. Status quo is defined as continuing with the existing practice as outlined in the PSA Handbook.
096. Paragraph .18 of the Introduction to PSAS notes:
- For purposes of preparing general purpose financial statements, government not-for-profit organizations apply the standards for not-for-profit organizations in the PSA Handbook or the standards in the PSA Handbook without Sections PS 4200 to PS 4270 (the PS 4200 series).
097. The current practice would continue, allowing GNFPs to apply PSAS either with or without the PS 4200 series.
098. Under this option, the existing standards within the PS 4200 series would be subject to review and amendments as standard setting is an evolutionary process building on research, widespread experimentation and practical experience. There may also be new standards developed and included within the PS 4200 series. These standard-setting projects would be subject to PSAB's due process and dependent on the Board's resources and priorities. Any standards within the PS 4200 series would only be applicable to those GNFPs that choose to apply the PS 4200 series.
099. For this option to be viable, the definition of a GNFP must be maintained so specific organizations can be directed to apply the PS 4200 series.

Criteria 1 – Financial statement users and their needs

100. The current diversity in practice, with some GNFPs using the PS 4200 series and some not, impairs the comparability and understandability of the general purpose financial statements. To make accurate assessments based on the financial statements, the financial statement user must understand the basis upon which the statements have been prepared.
101. Gaining an understanding of the particular accounting framework applied adds a level of complexity to a user's assessment. This complexity is compounded when a user reviews multiple GNFP general purpose financial statements. To make informed and proper assessments, a user must know:
- whether the PS 4200 series has been applied;
 - why it has or has not been applied;
 - what other accounting policies or frameworks have been applied; and
 - what the impact is of those differences in accounting application.
102. Adding to the confusion, based on responses to Consultation Paper I, some GNFPs are also applying legislated accounting policies or are preparing special-purpose reports applying Part III of the Handbook.
103. Group 1 users, which would likely include board members, are able to request additional information if required. However, a board member might be involved in other organizations, including a not-for-profit. So, understanding the different accounting frameworks that may be applied and the rationale for choosing a particular framework can be challenging. Caution is needed to ensure information presented is not misunderstood.

104. Group 2 users, which would likely include taxpayers, service recipients and donors, rely on other sources of financial information in addition to general purpose financial statements. If the other sources of information are based on, or are extracted from, the general purpose financial statements, caution is needed to ensure that these users understand how the information was gathered, compiled and reported as there may be differences given the various accounting frameworks used.
105. Group 3 users, which would include the controlling government, require the general purpose financial statements for accountability and consolidation purposes. These users can request specific information if needed and rely on that other information for their particular needs.
106. For all user groups, the challenge lies in different organizations using different accounting frameworks. To make informed resource-allocation decisions or assess accountability, users need to understand which accounting framework was applied.

Criteria 2 – Comparability

107. As mentioned earlier, the status quo has resulted in diversity of practice across Canada. Some controlling governments have mandated their GNFPOs not to apply the PS 4200 series while others have allowed their GNFPOs to choose for themselves. This diversity affects the comparability of the GNFPO's general purpose financial statements.
108. Within a particular jurisdiction, however, continuing with the status quo may or may not affect comparability, depending on the choices that have been made.
109. Regarding comparability between governments and GNFPOs and across all GNFPO subsectors, if the controlling government has mandated that the PS 4200 series not be applied, there would be comparability from these two perspectives.
110. However, within a jurisdiction, comparability between governments and GNFPOs and within the GNFPO subsectors would be impaired if GNFPOs were permitted to choose for themselves.
111. Given the possibility of these different practices among jurisdictions, comparability across the country would be impaired for all public sector entities and all GNFPOs.
112. Comparability between all NFPOs is impaired. Initially, the PS 4200 series was based on the same standards applied by NFPOs. However, over time, the alignment between the PS 4200 series and Part III of the Handbook has been diminishing.
113. Although amendments may be made to the PS 4200 series that improve the alignment, it is expected that differences may still remain. As a result, comparability would remain impaired.

Criteria 3 – Consistency

114. To make comparisons meaningful, information needs to be prepared on a consistent basis, from one accounting period to another, and from one organization to another. Having said that, professional judgment is used to select appropriate accounting policies and disclosures so different interpretations may result.
115. Under this option, accounting would be inconsistent for similar transactions given the different accounting frameworks being applied. As a result, consistency would remain impaired.

Criteria 4 – Sustainability

116. Based on the responses to Consultation Paper I, several new accounting issues are being raised. For example, as GNFPOs seek new revenue sources they are also considering new partnerships or collaborations to deliver services. With new endeavours and possibly new financial statement users, the diversity in accounting frameworks will add a level of complexity. Different accounting frameworks will likely impair the financial statements' understandability, which may affect their

decision-usefulness.

117. Furthermore, some responses indicated that the lines between OGOs and GNFPs was becoming blurred. As well, some OGOs would meet the definition of a GNFP if there was no requirement to have a private sector counterpart. This results in similar organizations being unable to apply the PS 4200 series if desired.
118. Consequently, maintaining the status quo restricts PSAB's ability to respond to these types of issues.

Criteria 5 – Transitional considerations

119. Continuing with current practice would not incur any additional transitional considerations from the preparer and auditor perspectives.

Option 2 – PSAS incorporating the PS 4200 series with potential customizations

Overview

120. PSAS incorporating the PS 4200 series with potential customizations is defined as reviewing and amending, as appropriate, the PS 4200 series guidance and incorporating it within the PSA Handbook for all public sector entities to apply if appropriate. In addition, PSAB would be able to provide some customizations within PSAS specific to GNFPs if it identified substantive and distinct accountabilities warranting a modification of existing PSAS.
121. Under this option, those standards that currently exist in the PS 4200 series would need to be reviewed to determine if they should be retained and added to PSAS. This may involve amending those standards to update them and ensure consistency with PSAB's conceptual framework.
122. A key feature of this option is that there is no longer a suite of standards that GNFPs could choose to apply or not. Instead, customizations might be permitted for GNFPs within a standard.
123. A common reporting model for all public sector entities would be applied. As standards are developed, PSAB would consider whether any customizations are warranted for GNFPs or specific subsectors of GNFPs. This decision may be based on the size of the GNFPs, the subsector or a combination of both.
124. For this option, it would be important to retain the GNFP classification to specify which entities can apply the customizations.

Criteria 1 – Financial statement users and their needs

125. Public sector entities applying consistent accounting and reporting standards will make financial statements understandable and may improve their usefulness.
126. Group 1 users, which would likely include the board members, might find the financial statements more understandable given a common reporting framework being applied to all public sector entities.
127. Although there may be some variation depending on the nature of the customizations that address GNFP-specific needs, the number of accounting frameworks being applied (different GAAP) would be reduced.
128. Group 2 users will be in a better position to compare financial information within the public sector as many organizations will use the same accounting and reporting standards to prepare their financial statements. Any customizations would address specific needs of a GNFP sector or subsector.

129. Group 3 users, the controlling government, could compare financial information among all public sector entities to make their resource-allocation decisions, as all public sector entities would apply a common reporting model.

Criteria 2 – Comparability

130. Under this option, all GNFPs would apply PSAS (removing the choice of applying PSAS with the PS 4200 series), which would improve comparability of GNFP financial statements across all subsectors as well as comparability between governments and GNFPs.
131. Governments and GNFPs would apply a common reporting model, which is important for comparability and accountability purposes. The common reporting model would provide a benchmark from which to deviate if PSAB identifies substantive and distinct accountabilities that might warrant customizations. For example, the Board has heard that simplifying reporting requirements would be helpful for some smaller GNFPs with the goal of improving financial statement understandability.
132. Under this option, comparability between GNFPs and private sector NFPOs may still be limited. However, in some instances, financial statement note disclosures and schedules could be provided for key financial information vital to compare to private sector counterparts.

Criteria 3 – Consistency

133. To make comparisons meaningful, information needs to be prepared on a consistent basis, from one accounting period to another, and from one organization to another. Having said that, professional judgment is used to select appropriate accounting policies and disclosures, so different interpretations may result.
134. Under this option, application of accounting policies would be consistent for similar types of transactions between all public sector entities as the options of different accounting policy choices would be removed.
135. For example, GNFPs and OGOs (entities that do not have a private sector counterpart and so did not meet the definition of a GNFP) could account for similar type transactions in a consistent manner. However, any customizations permitted may only pertain to GNFPs.

Criteria 4 – Sustainability

136. Under this option, PSAB would retain the ability to address GNFP-specific issues. Therefore, the ability to develop customized guidance specific to GNFPs, if appropriate, would remain with PSAB and ensure continued understandability and usefulness of GNFP financial statements.
137. All public sector entities face many of the upcoming challenges and trends identified in Consultation Paper I, although the severity and impact may vary depending on the organization. Having one set of standards will ensure all public sector entities have access to financial reporting guidance to help address these issues, subject to PSAB's resources and priorities. Having the ability to provide customized solutions within a common framework may help address practical issues that may arise and ensure sustainability of the accounting framework.

Criteria 5 – Transitional considerations

138. Under this option there will likely be some transitional considerations. From PSAB's perspective, the PS 4200 series will need to be reviewed to determine which standards should be retained and incorporated into PSAS and what amendments are necessary to ensure consistency with the conceptual framework. For some stakeholders, these changes might have minimal impact. For entities that previously did not apply the PS 4200 series, there would be new guidance to consider. Entities that did apply the PS 4200 series would need to consider the proposed

amendments to those standards. Any changes to existing standards would follow due process.

139. For all stakeholders, there may be some impact depending on the extent and nature of any customizations. It would be expected that the benefits of these customized provisions would outweigh any costs associated with implementing the approach.

Option 3 – Apply another source of GAAP (Part III of the CPA Canada Handbook – Accounting, Standards for Not-For-Profit Organizations, using Part II of the CPA Canada Handbook – Accounting, Standards for Private Enterprises as reference standards)

Overview

140. Applying another source of GAAP considers two possible approaches. The first (Option 3A) pertains to all GNFPs and the second (Option 3B) pertains to specific GNFP subsector(s).
141. Under Option 3A, the Introduction to PSAS would direct GNFPs to follow another source of GAAP. Specifically, Part III of the Handbook, using Part II of the Handbook, as reference standards. This approach was taken for GNFPs prior to 2012 when they were directed to follow private sector standards.
142. Under Option 3B, the Introduction to PSAS would identify and direct a specific GNFP subsector(s) to follow Part III of the Handbook, using Part II of the Handbook as reference standards.
143. Under this option, PSAB would determine the specific subsector(s) specifically identified in the Introduction to the PSA Handbook to be directed to another source of GAAP.
144. Under this option, if a specific GNFP subsector(s) is directed to Part III of the Handbook, it is assumed that the other subsectors that are directed to apply PSAS would apply Option 2 – PSAS incorporating the PS 4200 series with potential customizations.
145. For Option 3 to be viable, the definition of a GNFP must be maintained so GNFPs or specific GNFP subsector(s) can be directed to apply another source of GAAP.

Criteria 1 – Financial statement users and their needs

146. Group 1 users, which would likely include board members, are often more familiar with private sector standards. These users might find the financial statements more understandable under this option.
147. Group 2 users would also find the information useful as GNFPs and private sector NFPOs would be using the same accounting framework. However, it is important to remember that at this time even Part III of the Handbook allows NFPOs to choose different accounting policies when preparing their own financial statements.
148. Group 3 users, the controlling government, require the general purpose financial statements for accountability and consolidation purposes. These users can also request specific information, if needed, and rely on that other information for particular purposes. The primary concern for these users is that the reference standards would be based on Part II of the Handbook and may require additional consolidating adjustments when incorporating the GNFP into the financial statements of the controlling government.
149. Although multiple accounting frameworks are still being applied, within specific subsectors, there would be consistent application of accounting and reporting standards. This may help alleviate some concerns associated with understanding the different accounting frameworks.

Criteria 2 – Comparability

150. Under this option, comparability between governments and GNFPs would be impaired as GNFPs would apply a different accounting framework.
151. Under this option, classifying organizations would be required, which can increase complexity or lead to difficulties in comparing similar organizations. For example, OGOs that would otherwise have been classified as a GNFP except they did not have a private sector counterpart would not be comparable to a GNFP as a different GAAP is applied.
152. If all GNFPs were directed to apply Part III of the Handbook, the comparison of GNFPs across all subsectors would be improved as they would apply the same accounting and reporting standards. There may still be some differences as the current private sector standards provide entities with accounting policy choices, which may impact comparability between entities.
153. If a specific GNFP subsector(s) were directed to apply Part III of the Handbook, comparability between GNFPs across all subsectors would be impaired as some organizations, depending on their subsector, may apply a different accounting framework. However, comparability of GNFPs within those subsectors would be possible.
154. Comparisons between GNFPs and private sector NFPOs would be improved if all GNFPs were directed to apply Part III of the Handbook. As previously mentioned, there may still be some differences as the current private sector standards provide entities with accounting policy choices, which may impact comparability among entities.
155. If specific GNFP subsector(s) are directed to apply Part III of the Handbook, comparability for those subsectors with their private sector counterparts will be improved. However, comparison between GNFPs and private sector NFPOs would still be impaired for those GNFP subsectors that apply PSAS.

Criteria 3 – Consistency

156. To make comparisons meaningful, information needs to be prepared on a consistent basis, from one accounting period to another, and from one organization to another. Having said that, professional judgment is used to select appropriate accounting policies and disclosures, so different interpretations may result.
157. Under this option, the application of accounting policies might be inconsistent for similar types of transactions given the permitted choices. There is also the possibility that in some jurisdictions, the controlling government may prescribe which accounting policy should be applied. As a result, consistency may be impaired under this option.

Criteria 4 – Sustainability

158. Under this option, PSAB would not be in a position to completely address issues that arise given it has directed either all GNFPs or specific GNFP subsector(s) to apply Part III of the Handbook. Issues would be addressed by the AcSB and subject to its priorities and resources.
159. Under Option 3B, PSAB would have the ability to respond and address issues raised by the GNFP subsectors directed to apply PSAS. As a result, the sustainability of this option would be less effective than others.

Criteria 5 – Transitional considerations

160. Under this option all GNFPs will have some transitional considerations. These may be substantial for entities that previously did not apply the PS 4200 series. For those GNFPs directed to another source of GAAP to prepare their financial statements, their controlling governments will need to adjust their financial statements for consolidation purposes.

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