PSAB
Public Sector
Accounting Board

Narrow-scope Amendment: SORP-1 Consistency Updates

Exposure Draft

May 2025

This Exposure Draft closes for comments on July 24, 2025

The Public Sector Accounting Board (PSAB) welcomes feedback from any interested party on any or all the questions posed in this Exposure Draft.

You can provide feedback to PSAB on the proposals in a variety of ways:

- Participate in the Connect.FRASCanada.ca surveys.
- Write a response comment letter and upload it via our online form. Response letters can be addressed to:

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

  Note: Response letters will be posted online shortly after this Exposure Draft closes for comment. Confidentiality can be requested when uploading letters via the online form.

Helpful tips when participating in a consultation:

- Comments are most helpful if they relate to a specific paragraph or group of paragraphs found in this Exposure Draft.
- If you identify a potential issue in this Exposure Draft's proposals, we encourage you to clearly explain the issue and include a suggested alternative, supported by specific reasoning.
- PSAB does not expect you to respond to every single question posed – only those to which you feel you can or should respond.

INTRODUCTION

PSAB recently issued the Conceptual Framework for Financial Reporting in the Public Sector (the Conceptual Framework) and FINANCIAL STATEMENT PRESENTATION, Section PS 1202, (the Reporting Model) with an effective date beginning on or after April 1, 2026. Statement of Recommended Practice (SORP) 1, Financial Statement Discussion & Analysis, provides useful guidance in the preparation of a public sector entity's financial statement discussion and analysis (FSD&A), which is presented alongside the entity's financial statements to enhance financial statement users' understanding of the information conveyed in financial statements.

This Exposure Draft proposes narrow-scope amendments to SORP-1 to ensure consistency with the new Conceptual Framework and Reporting Model. These proposed amendments may comprise a change in practice for some public sector entities in preparing their financial statement discussion and analysis (FSD&A).

HIGHLIGHTS

PSAB proposes, subject to comments received following exposure, to issue narrow-scope amendments to SORP-1 to align with the new Conceptual Framework and Reporting Model. The Basis for Conclusions, which accompanies this Exposure Draft, sets out PSAB's reasons for its proposals.

Main features of the Exposure Draft

The following narrow-scope amendments are being proposed.

- **Remediate inconsistencies between existing SORP-1 and the new Conceptual Framework and Reporting Model**. To address inconsistencies between SORP-1 and the new Conceptual Framework and Reporting Model, PSAB proposes to amend:
  - the qualitative characteristics of financial reporting to align with the new Conceptual Framework;
  - guidance for the analysis of cash flows to include net cash available after operating, capital and investing activities; and
  - footnote references and the presentation of guidance to align with the structure of the Conceptual Framework and Reporting Model.
- **Develop guidance for the new Conceptual Framework and Reporting Model concepts**. The proposed narrow-scope amendments include new guidance intended to reflect key concepts in the Conceptual Framework and Reporting Model that are absent from existing SORP-1. The proposed guidance is intended to support the development of FSD&A related to:
  - accumulated remeasurement gains and losses as a component of net assets;
  - analysis of financial/non-financial liabilities and the new statement of net financial liabilities; and
  - the meaning of the net financial liability indicator.
- **Alignment of outdated SORP-1 terminology**. Narrow-scope amendments are proposed to update the outdated terminology in SORP-1 for inclusivity and to align with the new Conceptual Framework and Reporting Model. These changes are intended to improve the clarity of SORP-1 by ensuring the terminology used in a public sector entity's FSD&A is consistent with its financial statements.

Implications of the proposals

The proposed narrow-scope amendments to SORP-1 would be issued in the CPA Canada Public Sector Accounting (PSA) Handbook as of April 1, 2026, to align with the effective date of the new Conceptual Framework and Reporting Model.

Guidance provided in SORP-1 does not form part of the PSA Handbook or generally accepted accounting principles (GAAP).

Many of the narrow-scope amendments are editorial in nature, providing non-authoritative guidance to assist public sector entities in the preparation of FSD&A information that maintains consistency with financial statement information.

The FSD&A tells the story of what is behind the financial statement numbers, enabling financial statement users to better understand public sector financial statements and improve decision-making. By aligning SORP-1 guidance with the new Conceptual Framework and Reporting Model, the proposed narrow-scope amendments are intended to help ensure that the additional information provided in a public sector entity's FSD&A is consistent with financial statement information, providing the context necessary to enhance the transparency and accountability, and to serve the Canadian public interest.

Comments requested

1. Do you agree with the proposed narrow-scope amendments outlined in this Exposure Draft?
2. Do you agree that the proposed narrow-scope amendments achieve the objective of ensuring consistency with the new Conceptual Framework and Reporting Model? If not, what further changes are required?

This Exposure Draft closes for comment on July 24, 2025.

PROPOSAL

The PSA Handbook would be amended as indicated below. New text is denoted by underlining and deleted text by strikethrough.

statement of recommended practice
SORP-1
financial statement discussion & analysis

TABLE OF CONTENTS **Paragraph**

PURPOSE AND SCOPE

1 This Statement of Recommended Practice (SORP) provides guidance for reporting financial statement discussion and analysis (FSD&A).

2 This SORP is intended to apply to ~~governments.~~ <u>all public sector entities that prepare general purpose financial statements in accordance with the CPA Canada Public Sector (PSA) Handbook.</u>

3 "**Report**" refers to the annual summary report published by a ~~government~~ <u>public sector entity</u> on its financial condition as at the financial statement date and its <u>financial</u> performance during the reporting period.

4 This SORP is intended to provide a general framework for the development of FSD&A information. It is not prescriptive, but offers general guidance to encourage ~~governments~~ <u>public sector entities</u> to effectively report only the most relevant information and to avoid a boilerplate presentation. The guidance provides a basis for exercising professional judgment as to the nature and extent of the information to be disclosed.

5 This SORP recommends that a ~~government~~ <u>public sector entity</u> prepare and acknowledge its responsibility for FSD&A information. It also provides guidance on the type of information to be provided. Although not part of the financial statements, FSD&A is information that would accompany the financial statements.

6 The main objective of 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 also 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.

7 FSD&A information needs to:

(a) enhance the users' understanding of the ~~government's~~ <u>public sector entity's</u> financial position and results of operations, enabling them to make more informed decisions and judgments; and

(b) enable the ~~government~~ <u>public sector entity</u> to demonstrate its accountability for the resources entrusted to it.

A ~~GOVERNMENT~~ <u>PUBLIC SECTOR ENTITY</u> REPORT

8 **A ~~government's~~ <u>public sector entity's</u> report should include financial statements and financial statement discussion and analysis.**

9 Financial statements provide information measured in terms of money. The information needed to aid understanding and assessment of ~~government~~ <u>a public sector entity's</u> financial position and changes in financial position, however, extends beyond reporting amounts such as accumulated surplus and total expenditures. Although financial statements provide decision-useful information, on their own, they do not highlight information about the key relationships that exist among the various pieces of that information, explain why something did or did not happen, or what may happen in the future as a result of long-term trends.

10 The purpose of FSD&A is to expand on and explain information contained in financial statements, making them more useful by extending the understanding of the information they report beyond those who possess technical expertise. The provision of FSD&A will also assist those with technical capability by enhancing their understanding of financial position and changes in financial position.

11 The narrative format of FSD&A complements and supplements the ~~government's~~ public sector entity's financial statements, allowing the ~~government~~ public sector entity to express qualitative information given its detailed knowledge of the transactions~~,~~ and other events ~~and conditions~~ underlying the reported financial position and changes in financial position. For users to gain a better understanding of a ~~government's~~ public sector entity's financial position and changes in financial position, other information beyond that contained in the current financial statements is required.

REFERENCE TO THE FINANCIAL STATEMENTS

12 **Financial statement discussion and analysis should be clearly referenced to the related financial statements.**

13 Given that the FSD&A is based on the underlying financial statements, and that it supplements and complements them, reference to the related statements should be clearly made in the FSD&A.

~~GOVERNMENT~~ PUBLIC SECTOR ENTITY RESPONSIBILITY

14 **Financial statement discussion and analysis should include a statement acknowledging the ~~government's~~ public sector entity's responsibility for its preparation.**

15 Responsibility for the preparation of the FSD&A rests with the ~~government~~ public sector entity, and this should be clearly communicated to the users. To promote transparency and accountability, the FSD&A would include an acknowledgment of the ~~government's~~ public sector entity's responsibility for its preparation, to ensure that users are aware of who is responsible and that the ~~government~~ public sector entity has approved the document.

QUALITATIVE CHARACTERISTICS[1]

16 **Financial statement discussion and analysis should communicate information embodying the basic characteristics of understandability, relevance, timeliness, faithful representation, verifiability~~, reliability~~ and comparability.**

17 One of the underlying basic principles of communicating any information is that the information must be useful to the users. This principle applies to FSD&A information. The intent is to enhance users' understanding of a public sector entity's ~~government's~~ financial position, thus enabling them to make better, more informed assessments regarding changes in financial position and for assessing accountability. To be useful, the information should be based on these basic characteristics.

18 These characteristics are essential to the communication and utility of information contained in a ~~government's~~ public sector entity's annual report. While these characteristics are usually discussed in terms of financial statements, they are, with some elaboration, essential for the communication of FSD&A information.

[1] Additional information can be found in Chapter 7 of the Conceptual Framework for Financial Reporting in the Public Sector.~~, FINANCIAL STATEMENT OBJECTIVES — FEDERAL, PROVINCIAL & TERRITORIAL GOVERNMENTS, Section PS 1000.~~

Understandability

19 For information to be useful, it must be capable of being understood by users. Classifying, characterizing and presenting financial information clearly, concisely and simply enhances understandability. Contextual and explanatory information is also helpful. Clear and precise facts alone may not be sufficient for a user to understand the information. Excessive detail, vague or overly technical descriptions, and complex presentation formats~~,~~ result in confusion and misinterpretation. Users need information presented clearly and simply. Users are assumed to have a reasonable understanding of economic activities and financial reporting, together with a willingness to study the information with reasonable diligence.

20 Narrative explanations that are too detailed or technical, or that use jargon, make it difficult for users to understand and assess the financial position and changes in financial position of a public sector entity. ~~government.~~ Information would be presented in simple, plain language that focuses on critical facts and matters to enable users to draw a reasonable conclusion.

Relevance

21 Information is relevant by its nature when it can inform users' evaluation of an entity's accountability for its governance, performance, stewardship and sustainability. ~~it can influence the decisions of users and assist them in assessing accountability.~~ For the information to be relevant, it must be of a nature, and presented in such a manner, that helps users make decisions and assess the accountability of the public sector entity ~~government~~ for its administration of public resources and financial affairs. Relevant information helps users evaluate the potential effects and form predictions about the future outcomes of past or present transactions and other events, ~~the financial impact of past, present or future transactions and events,~~ confirm, or revise ~~correct~~ previous evaluations. It addresses only the significant matters that will likely affect the judgments and decisions of users.

Timeliness

22 For information to be useful ~~relevant~~ for decision making and assessing accountability, it must be timely. It must be provided before it loses its capacity to assist in making decisions. It should be provided such that users can assess the information in the context of other current information. The usefulness of information for decision making and assessing accountability declines as time elapses. Reports issued long after the financial statement date are of historical interest only.

~~Reliability~~ Faithful representation

23 Information is reliable when it is capable of independent verification, fair and reasonably free from error and bias, and in agreement with the actual underlying transactions and events. Reliability is achieved through representational faithfulness, verifiability and neutrality. For information to be useful, it must faithfully represent the economic resources, economic obligations, transactions and other events that it purports to represent. The aspects of faithful representation include substance over form, completeness, neutrality and freedom from material error.

24 While estimates and judgments may be involved in public sector entity reports, information presented in the report should be free from material errors that individually or collectively misrepresent the public sector entity's economic resources, economic obligations, transactions or other events. ~~Representational faithfulness and validity are achieved when~~ Information presented in the report ~~is~~ would ~~in~~ agree~~ment~~ with the information in the financial statements and from other sources. Inaccurate, inappropriate or incomplete information will not faithfully represent the substance of an economic resource, economic obligation, transaction or other event. The information would be presented in a manner that conveys its substance. The determination of substance is a matter of professional judgment in the circumstances.

25 [deleted] ~~The information is verifiable if knowledgeable and independent observers would concur that it is in agreement with the underlying information in the financial statements with a reasonable degree of precision.~~

26 Information is neutral~~, balanced and fair~~ when it is free from bias that may lead users toward making decisions that are influenced by the way the information is measured or presented. Bias may occur when the selection of information to be presented is made with the interests of particular users or with particular economic or political objectives in mind. Information that does not include everything necessary for a ~~neutral and fair~~ faithful representation would be incomplete and, therefore, potentially biased.

Verifiability

26A Verifiability is the quality of information that helps assure users that information in financial statements faithfully represents the economic resources, economic obligations, transactions and other events that it purports to represent. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

26B Information is verifiable if knowledgeable and independent observers, using the same methods, would get essentially the same result.

Comparability

27 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided. Comparability is important, for instance, when comparing an entity’s actual financial performance with that budgeted, when comparing the information of two different entities and when comparing the information of the same entity over two periods or at two different points in time.

28 Comparability is enhanced when the same policies and practices are used consistently from period to period. Consistency helps prevent misconceptions that might result from the application of different policies or ratio calculations in different periods. For example, ~~F~~formulae for calculating ratios would be clearly defined and consistently applied. When a change is deemed appropriate, disclosure of the effects of the change may be necessary to maintain comparability.

~~Qualitative characteristics trade-off~~ Related considerations

29 ~~In practice, a trade-off between qualitative characteristics is often necessary, particularly between relevance and reliability. For example, there is often a trade-off between the timeliness of producing financial reports and the reliability of the information presented in the report.~~ Generally, the financial reports should aim ~~is~~ to achieve an appropriate balance among the basic characteristics to meet the accountability objective of providing the information. The relative importance of the characteristics in different cases is a matter of professional judgment, and should consider benefit versus cost, materiality and prudence.

29A Financial information is an economic good: it comes at a cost and provides benefits, primarily to those to whom an entity is accountable. Public sector entity reports should provide useful information; however, the benefits of providing information must justify the cost of collecting, processing, presenting, verifying and disseminating it. The FSD&A should provide information that enhances financial statement understandability, rather than excessive detail or boilerplate information.

29B Information is material if omitting, misstating or obscuring it would impair the assessment of accountability by the users or influence the decisions they make. The FSD&A would prioritize information that provides meaningful context for understanding financial statement information. Materiality would consider both quantitative and qualitative perspectives.

29C Prudence is the exercise of caution when making judgments under conditions of uncertainty. The FSD&A would consider prudence in determining the nature and extent of estimates, forward-looking statements, and analysis included in the report, and ensuring FSD&A information is unbiased.

PRESENTATION

30 **Financial statement discussion and analysis should include:**

(a) a highlights section that provides a brief, concise summary of the significant events affecting the financial statements; and

(b) an analysis section that:

(i) includes information on known significant risks and uncertainties inherent in the public sector entity's ~~government's~~ financial position and changes in financial position, and briefly outlines the strategies, policies and techniques adopted to manage those risks and uncertainties;

(ii) identifies and explains:

- **significant variances between current year actual results and budget;**
- **significant variances between current year actual results and prior year actual results; and**
- **changes that have occurred but are not readily apparent from the quantitative analysis; and**

(iii) includes an analysis of significant trends related to financial assets;~~,~~ non-financial assets, including tangible capital assets;~~,~~ financial liabilities;~~,~~ non-financial liabilities;~~,~~ net financial assets or net financial liabilities ~~net debt, tangible capital assets~~;~~,~~ net assets or net liabilities;~~,~~ revenues;~~,~~ expenses / expenditures;~~,~~ surplus (deficit) ~~net revenues, (expenses / expenditures)~~;~~,~~ and cash flows.

31 To effectively communicate information to users, it would be aggregated at an appropriate level of detail and include summary indicators, such as ratios, charts or other graphics to encourage a more thorough understanding of the information provided in the financial statements. It would focus on the critical aspects of a public sector entity's ~~government's~~ financial position and changes in financial position.

32 The level of detail disclosed in the FSD&A would reflect the highly aggregated nature of financial statements. In deciding on the level of detail to disclose, a public sector entity ~~government~~ considers the usefulness of the information to users who are assessing the nature of its financial position and changes in financial position. However, sufficient detail needs to be provided in the FSD&A such that the analyses and explanations provided are meaningful.

33 When financial data are translated into charts or graphs, comparisons between numbers become more obvious and data relationships are easier to understand. However, given the absence of general guidelines for preparing graphs and charts, there is a potential for misleading representations, so caution and professional judgment would be applied when assessing how the information is provided.

Highlights

34 As a starting point in understanding the public sector entity's ~~government's~~ financial position and changes in financial position, it is necessary to understand how the financial statements provided interrelate and complement each other. Although each statement conveys a particular message about the state of the public sector entity's ~~government's~~ finances, none is likely to provide all the financial information useful for a particular decision.

35 The purpose of the highlights section is not to simply reiterate the information that is presented in the financial statements, but to add value by providing an executive overview of those statements and the significant in-year activities that have affected them.

36 That overview would provide a concise description and explanation of the significant events and conditions that shaped the information presented in the financial statements. It would include any major changes that occurred during the year, major unplanned events, and any significant amounts related to assets, liabilities, revenues and expenses / expenditures. A distinction between normal ongoing programs and infrequent or unusual events may be appropriate.

37 A brief overview of the messages each financial statement conveys would be provided. Such a description assists users in understanding the financial sustainability, flexibility and vulnerability of the public sector entity ~~government~~, and future resource requirements.

Analysis

38 The analysis includes an explanation of variances between current year actual results and the budget, as well as the prior year's actual results and information about trends in significant financial statement elements and financial statement indicators. This assists users in understanding how a public sector entity ~~government~~ financed its activities during the year, and in assessing whether a public sector entity ~~government~~ would be able to maintain the same level of services in future years.

39 When preparing financial analysis information, professional judgment is needed to identify the critical facts and the best approach for reporting the information. This section is intended to add value to the information in the financial statements to assist users in understanding and interpreting the data presented.

Risk and uncertainties

40 The users of the FSD&A need to understand a ~~government's~~ public sector entity's exposure to risk and uncertainties in order to make informed judgments about the implications of such risks on the ~~government's~~ public sector entity's financial position and changes in financial position, and the potential implications on future operations.

41 There are three primary aspects of risk that would be addressed:

(a) identification of the risk;

(b) assessing the potential impact; and

(c) discussing the strategies and techniques adopted for managing the risk.

In the explanations and analysis, the ~~government~~ public sector entity should focus its descriptions of risks and uncertainties on those likely to occur and that may have significant financial implications.

42 Numerous sources of risks and uncertainties can arise and transcend the various financial statement elements. Therefore, discussion pertaining to the significant risks and uncertainties identified may either be interspersed throughout the analysis of the financial statement elements or presented as a separate section of the FSD&A.

43 Sources of risk that may warrant discussion in the FSD&A, depending on the particular circumstances of the ~~government~~ public sector entity, include, for example:

(a) volatility in the financial results;

(b) imprecision due to the use of estimates in preparing the financial statements;

(c) risks associated with debt and other treasury management, such as interest risk, currency risk and credit risk;

(d) exposure or vulnerability to concentrations, or dependence on a particular source of revenues, for example, government transfers or royalties; and

(e) risks of impairment of assets or replacement of assets.

44 In addition to identification and description of the risks, a discussion of the ~~government's~~ public sector entity's risk management policies and strategies would be provided. This ensures that users obtain a complete picture of the ~~government's~~ public sector entity's exposure to assist in their evaluation of the ~~government's~~ public sector entity's financial position and changes in financial position.

45 Such disclosure, for example, may include discussion of transferring or sharing the risk, or alleviating it through insurance or, as is the case when dealing with long-term debt, through hedging strategies. In addition to providing a description of strategies, it may be useful, for example, to illustrate the implications of the ~~government's~~ public sector entity's exposure through sensitivity analysis. Presenting the sensitivity of assets or liabilities to fluctuations in key parameters such as interest rates and foreign exchange rates provides relevant information to users of FSD&A regarding the impact that uncontrollable factors may have on future financial position and changes in financial position.

46 In addition to identifying the risks a ~~government~~ public sector entity is exposed to, the FSD&A may also elaborate on other uncertainties, such as environmental master plans and development programs.

47 It may also be important that significant contingencies, commitments and subsequent events be adequately discussed, as they assist users in assessing future financial resource ~~revenue~~ requirements of the ~~government~~ public sector entity. In most cases, such disclosures are provided in the notes to the financial statements. However, in some instances, further elaboration of the conditions will provide greater insight as to how such events may impact the ~~government's~~ public sector entity's activities and financial position. It may, for example, be useful to discuss the purpose, effects, characteristics and extent of a subsequent issue of debenture debt, capital and operating leases and various types of guarantees.

Variance analysis

48 The variance analysis presented in the analysis section would discuss both the positive and negative aspects of any significant variances. Variances may become apparent through a comparison of the budget to actual or through a comparison of prior year actual results to current year actual results. In either case, variances would be identified and explained and may include variances due to changes in the delivery of service, changes in programs offered, or changes due to the level of revenues raised or costs incurred.

49 An analysis of significant budget-to-actual variances is important, as the budget is a key accountability document used to communicate the ~~government's~~ public sector entity's plans to the public at the beginning of the fiscal year. Thus, it is useful to demonstrate whether the ~~government~~ public sector entity was able to carry out the activities during the year as planned. Such comparisons serve as a starting point for understanding and assessing whether a ~~government~~ public sector entity attained its objectives. When budget data is available for only part of the reporting entity, FSD&A information would be provided on a limited-scope basis, noting that budget information related to certain activities is not available.

50 An analysis of significant variances between prior year and current year actual results serves as a starting point for understanding and assessing trends in the ~~government's~~ public sector entity's financial position and changes in financial position. Such comparisons include a review of assets, liabilities, revenues and expenses / expenditures, allowing users to assess the results of past events and future prospects.

51 In some instances, a significant change or event will have occurred during the period, but the quantitative data will not illustrate a significant variance. In such cases, explanations would be provided in the FSD&A, as they are useful to the user in assessing the future services and commitments of the ~~government~~ public sector entity.

52 Only those items and variances that are significant and relevant to understanding the activities of the ~~government~~ public sector entity would be included in the FSD&A. Therefore, the content of the discussion and analysis may differ between entities depending on their particular circumstances. The objective is to present a complete and unbiased summary of the ~~government's~~ public sector entity's finances. For the analysis to be meaningful, it should include narrative explanations of significant variances, and not just the percentage changes.

Assessment of trends

53 The assessment of trends includes those financial statement items deemed important and significant to gaining a better understanding of the ~~government's~~ public sector entity's financial position and changes in financial position over the longer term.

54 A trend analysis would provide data for more than two financial years (prior year and current year), as this enhances users' ability to assess the trend, assuming the information is available and can be presented in a consistent manner. To properly convey the nature of the trend, it may be appropriate to present the data over five years, or, in other cases, a different period of time.

55 When a ~~government~~ public sector entity restructures its operations or chooses an alternative method of service delivery, this may affect any reported trends. In cases where such changes have significantly affected a trend, it may be useful to provide an explanation of the reasons for the changes in the trend. This information provides users with additional information to understand and assess the financial effect of those changes.

56 When historical information is not readily available, a ~~government~~ public sector entity would, on a best-efforts basis, include the information it does have to begin trending the relevant data. The ~~government~~ public sector entity would note in the FSD&A that historical information is not readily available. When the data is available for only part of the reporting entity, FSD&A would be provided on a limited-scope basis, noting that the information related to certain activities is not available.

Financial assets

57 An analysis of financial assets provides users with relevant information regarding the amount of resources available to the ~~government~~ public sector entity that can be converted to cash if necessary. Thus, it provides users with information regarding the amount of funds readily available to meet the ~~government's~~ public sector entity's liabilities and commitments, and to finance future operations.

58 In order to demonstrate and further the understanding of the nature and magnitude of resources available to the ~~government~~ public sector entity, the analysis of financial assets may include, for example:

(a) an overview of financial assets by major classification;

(b) an analysis of change in financial assets to illustrate volatility in the sources of funds, which would assist users with their assessment of future implications;

(c) an analysis of provisions for loan losses to demonstrate and assess collectability of funds;

(d) an analysis of the rates of return on investment and portfolio composition;

(e) an analysis of the ~~government's~~ public sector entity's investment in government business enterprises as a percentage of the total financial assets;

(f) an analysis of taxes receivable to total tax revenues; and

(g) an analysis of restricted and designated financial assets set aside for specific purposes.

Financial liabilities ~~(including debt)~~

59 An analysis of financial liabilities provides users with relevant information to enhance their understanding and assessment of the demands on financial resources. Information related to financial liabilities may also assist users in assessing the ~~government's~~ public sector entity's debt management decisions and identifying the ~~government's~~ public sector entity's exposure to such things as interest rate risk and currency rate risk.

60 ~~Governments~~ Public sector entities often finance their activities through the use of debt or by incurring other long-term liabilities. Therefore, users must understand the implications of long-term liabilities, and the ~~government's~~ public sector entity's exposures to them, to properly assess its current and future financial position and changes in financial position. The cost associated with holding debt or incurring other long-term liabilities must be clearly expressed.

61 In order to illustrate the ~~government's~~ public sector entity's use of debt and other long-term liabilities, the analysis may include, for example, the following:

(a) A breakdown of the ~~government's~~ public sector entity's debt by domestic issues versus foreign issues.

(b) A high-level description of the ~~government's~~ public sector entity's debt management policies and strategies, and the general terms and conditions associated with the debt.

(c) An analysis of the ~~government's~~ public sector entity's total debt to assess trends in the ~~government's~~ public sector entity's level of debt. Specific ratios or indicators may also be useful to highlight the magnitude of ~~government~~ public sector entity's debt and the changes in it over time. For example, an analysis of the total debt outstanding at year end to the total liabilities of the ~~government~~ public sector entity may be provided. The impact of the debt servicing cost, expressed as public debt charges to revenues, may also be included.

(d) An assessment of any unfunded retirement and other employment or post employment benefit liabilities. This may include a discussion related to the timing of when the unfunded liability needs to be provided for.

(e) An analysis of deferred revenues and the terms and conditions associated with the amounts and the commitments associated with them. The ~~government~~ public sector entity is not entitled to these revenues until it performs specific actions as outlined in the terms and conditions of the related contract or agreement.

(f) An analysis of any sinking funds available for the discharge of long-term liabilities.

~~Net debt (net financial assets)~~Non-financial liabilities

62 ~~An analysis of net debt or net financial assets (calculated as total liabilities less financial assets) provides users with information relevant in assessing the government's overall financial operations. Net financial assets represent the amount available to the government to finance future operations. Providing significant explanations and a trend analysis related to the net debt or net financial assets provides users with an indication as to whether net debt is growing over the longer period or whether the government is accumulating net financial assets.~~ An analysis of non-financial liabilities provides users with relevant information to enhance their understanding of the public sector entity's non-financial performance obligations. This assists users in assessing the entity's non-financial liabilities related to transferring, granting external party access and/or using non-financial assets to settle the non-financial obligations.

62A In order to further the understanding of the nature and magnitude of the public sector entity's non-financial performance obligations, the analysis of non-financial liabilities may include, for example, analyses of the following:

(a) non-financial liabilities that will be satisfied using the public sector entity's non-financial assets or unrecognized economic resources;

(b) non-financial liabilities that have arisen from the user-pay model of public private partnership, which may include a discussion of significant arrangement terms, the nature of access and revenue-generating capacity afforded the private sector partner and the infrastructure that was acquired as a result;

(c) non-financial liabilities related to allowing an external entity to use the public sector entity's non-financial assets or unrecognized economic resources;

(d) each significant arrangement, taking into account the arrangement terms, providing an external party certain rights of access to a public sector entity's non-financial assets or unrecognized economic resources. This analysis may include information regarding the type of access granted; and

(e) the public sector entity's obligations to transfer a non-financial assets or unrecognized economic resource.

Non-financial assets

62B An analysis of non-financial assets provides users with relevant information regarding the public sector entity's resources that provide future service potential and do not meet the definition of a financial asset.

62C To demonstrate and further the understanding of the nature and magnitude of the resources available to the public sector entity, the analysis of non-financial assets may consist of, for example:

(a) an overview of non-financial assets by major classification; and

(b) an analysis of the change in non-financial assets to illustrate the nature and service potential of the non-financial assets.

~~Capital assets[2]~~

63 An analysis of tangible capital assets provides users with information relevant in understanding and assessing the management of a ~~government's~~ public sector entity's tangible capital asset base. Managing tangible capital assets has a direct impact on the level and quality of services a ~~government~~ public sector entity is able to provide to its constituents. Consequently, such information is essential to users in assessing the ~~government's~~ public sector entity's financial condition and future service potential.

64 In order to facilitate an assessment of the ~~government's~~ public sector entity's tangible capital asset base, the information may include, for example:

(a) an analysis of required maintenance, including future expenditure requirements for maintenance and replacement, to allow users to make informed decisions regarding the ability of the capital assets to sustain and provide services in the future;

(b) an analysis of the change in the net book value of tangible capital assets by major category for the last five years; and

(c) an explanation of what the net book value and changes in it mean; for example, a description of why the net book value has increased or decreased is useful in understanding asset replacement and usage.

~~Other non-financial assets~~

65 An analysis of other non-financial assets, such as inventories of supplies and prepaid expenses, provides users with information relevant in assessing consumable goods on hand or claims on future goods and services, which are resources that the ~~government~~ public sector entity can employ in the future to provide services.

66 In order to facilitate an assessment of the ~~government's~~ public sector entity's other non-financial assets, the information may include, for example:

(a) an analysis of the nature, extent and purpose of holding various types of inventories of supplies; and

(b) an analysis of the nature, extent, purpose and timing of any prepaid items such as insurance.

Net financial assets (net financial liabilities)

66A An analysis of net financial assets or net financial liabilities (calculated as the difference between financial assets and financial liabilities) provides users with information relevant in assessing the public sector entity's overall financial position. Net financial assets represent the financial assets available to the public sector entity to provide services in the future and/or settle existing and future financial liabilities. A net financial liabilities position means there is a need for future financial assets to settle financial liabilities that have arisen from past transactions or other events. Providing a definition of the indicator, significant explanations and a trend analysis related to the net financial assets or net financial liabilities provides users with an indication as to whether net financial liabilities is growing over the longer period or whether the public sector entity is accumulating net financial assets.

~~[2] Where applicable~~

Net assets (net liabilities)[3]

67 An analysis of net assets (net liabilities) provides users with information relevant in assessing whether the ~~government's~~ public sector entity's overall financial position has improved or deteriorated. For example, providing significant explanations and a trend analysis related to the net assets (net liabilities) may indicate to users that while net ~~debt~~ financial liabilities is growing over the longer period, the ~~government~~ public sector entity is accumulating capital assets.

67A An analysis of unrealized changes in assets or liabilities, which are recognized in the accumulated remeasurement gains and losses component of net assets (net liabilities), provides users with information relating to changes in economic conditions not directly controlled by the entity and are less likely to be replicable. This is relevant in assessing the entity's financial performance.

Revenues

68 An analysis of revenues provides users with information relevant in determining how and where a ~~government~~ public sector entity gets its revenues, which is useful in:

(a) analyzing the impact of the ~~government's~~ public sector entity's revenue-raising activities on the economy;

(b) gaining an understanding of the ~~government's~~ public sector entity's finances in terms of its revenues sources and their relative contributions; and

(c) evaluating the revenue-producing capacity of the ~~government's~~ public sector entity's investments.

69 A trend analysis of revenues provides users with information about significant changes in revenues over time and between sources, enabling users to evaluate past financial performance and assess potential implications for the future.

70 In particular, users are often interested in knowing if the current levels of revenues will be sustained, what the major sources of revenues are, and the ~~government's~~ public sector entity's reliance on sources such as transfers and subsidies.

71 In order to address the above, the analysis of revenues may include the following:

(a) An overview of total revenues by major source to indicate trends and dependencies on specific sources. Specific ratios or indicators may also be provided to highlight the level of dependence the ~~government~~ public sector entity has on particular sources of revenues, for example:

(i) ~~government-to-~~government transfers[~~4~~2] to own-source revenues;[~~5~~3] and

(ii) own-source revenues as a percentage of total revenues.

(b) The impact of government business enterprise activities on the ~~government~~ public sector entity as a whole, which may be relevant especially if there are restrictions placed on the use of the government business enterprise's net assets.

(c) An analysis of the change in revenues by major source.

72 Any known conditions that have significantly impacted or may impact future revenues should be outlined to assist in determining trends.

~~3 Where applicable~~

[~~4~~2] Government~~-to-government~~ transfers represent the cash transfers that ~~one level of government~~ a public sector entity receives from ~~another~~ a level of government, for example, those a province receives from the federal government.

[~~5~~3] Own-source revenues include taxation, customs duties and user charges.

Expense / expenditure

73 An analysis of expenses / expenditures provides users with information about the nature and purpose of a ~~government's~~ public sector entity's expenses or expenditures in the period, which is useful in:

(a) demonstrating the ~~government's~~ public sector entity's allocation and use of resources;

(b) analyzing the impact of the ~~government's~~ public sector entity's spending on the economy in terms of purchasing goods and services, and transfer payments;

(c) gaining an understanding of the cost of ~~government~~ the public sector entity's programs and services; and

(d) evaluating the cost of borrowing to finance spending.

74 An analysis of expenses / expenditures provides users with information about significant changes in expenses / expenditures over time and between programs, which enables users to evaluate past financial performance and assess potential implications for the future.

75 In particular, users are often interested in evaluating program spending decisions and the impact of debt servicing costs.

76 In order to address the above issues, the analysis of expenses / expenditures may include, for example:

(a) an overview of total expenses / expenditures by function, to indicate trends and spending priorities;

(b) an overview of total expenses / expenditures by object, to indicate trends and the economic implications of ~~government~~ public sector entity spending; and

(c) an analysis of debt servicing costs as a percentage of total expenditures, which helps to highlight the magnitude of expenses / expenditures that is required to service past obligations and thus reduces the amount of funds that can be directed to various programs. Alternatively, debt servicing costs as a percentage of revenues could be provided.

77 Any known conditions that have significantly impacted or may impact future expenses / expenditures should be outlined to assist in determining trends.

~~Excess (deficiency) of revenues over expenses / expenditures~~ Surplus (deficit)

78 An analysis of the ~~net revenues or expenses / expenditures~~ surplus (deficit) provides users with information relevant in determining whether the ~~government~~ public sector entity was able to raise enough revenues in the period to cover its costs and spending.

79 This analysis may also highlight the major functional expenditures of a ~~government~~ public sector entity and demonstrate each function's reliance on taxation revenues and/or public resources. To illustrate whether sufficient revenues were raised to cover expenses / expenditures, the analysis may include:

(a) an analysis of ~~net revenues or expenses / expenditures~~ surplus (deficit) by function;

(b) a comparison of direct / identifiable program revenues to expenses / expenditures by function, to illustrate the amount of program spending funded through taxation and/or other public resources; and

(c) an explanation of how, under the expenditure basis of accounting, the ~~net revenues / expenditures~~ surplus (deficit) explains the change in ~~net debt~~ net financial assets (net financial liabilities) ~~on the statement of financial position~~ if an entity chooses to present the change in this indicator.

Cash flows

80 An analysis of cash flows provides users with information relevant in evaluating ~~a government's liquidity and accountability for the use of cash resources, as well as in assessing future cash requirements~~ the effects of a public sector entity's activities on its cash resources and fiscal sustainability. Information regarding a ~~government's~~ public sector entity's cash flows broken down by category (i.e., operating, capital, investing and financing) may also be included. Historical cash flow information may be useful as an indicator of the amount, timing and certainty of future cash flows. Information about the cash flows enables users to assess the capacity of the ~~government~~ public sector entity to generate cash and cash equivalents, and the needs of the ~~government~~ public sector entity for cash resources.

81 The change in a ~~government's~~ public sector entity's cash resources can be explained in the context of major activities (operations, capital, investing and financing), and may include the following:

(a) An analysis of the cash flows arising from operating activities, which may include the gross cash receipts and payments arising from the normal operations of the ~~government~~ public sector entity. For example, the gross cash receipts from taxation, user fees or government transfers ~~from other governments~~ may be provided to illustrate the magnitude and sources of cash raised during the period to meet the ~~government's~~ public sector entity's cash requirements. The analysis may also include or highlight the significant cash requirements or payments made during the period, such as payments to and on behalf of employees.

(b) An analysis of the cash flows arising from capital activities for ~~senior governments~~ public sector entities, which may include significant acquisitions of tangible capital assets during the period or disposals of tangible capital assets. This would provide useful information to users regarding the ~~government's~~ public sector entity's investment in tangible capital assets, which are an essential component in the delivery of services.

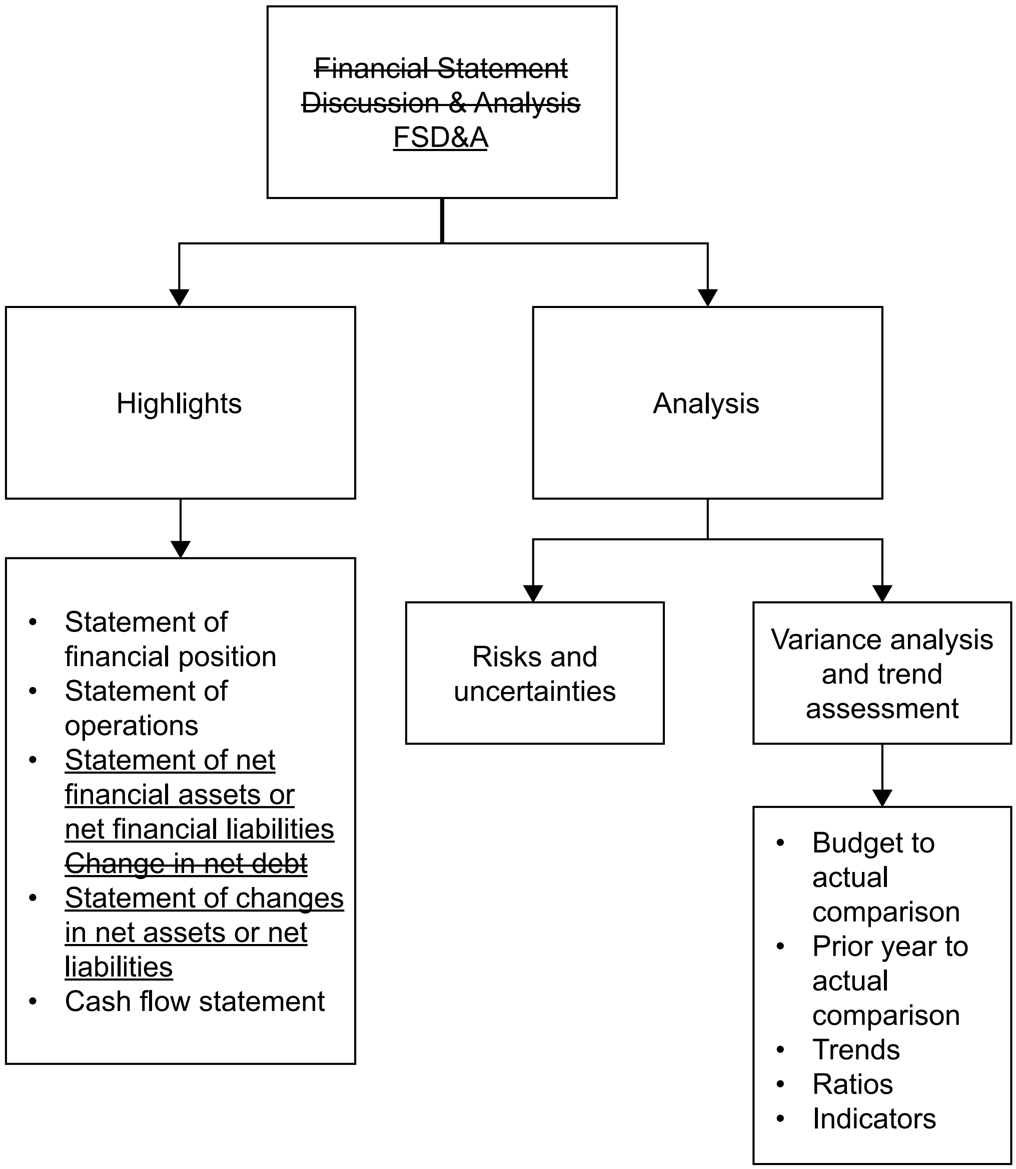
(c) An analysis of cash flows arising from investing activities, which represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. This analysis may highlight significant changes in portfolio investments, showing any additions or disposals of portfolio investments during the year(s).

(d) An analysis of financing activities, which provides information relevant in assessing future cash flow requirements due to debt financing arrangements. This analysis may highlight cash proceeds from debt issues or redemptions. It may also highlight significant changes in capital leases. Further, it may be helpful in explaining the need for borrowing even though the ~~government~~ public sector entity has reported a surplus in its statement of operations.

(e) An analysis of net cash available after the operating, capital, and investing activities for the period are totalled, which provides additional information regarding financing activities were required to fund the entity's activities as well as the entity's fiscal sustainability. Reporting sustainability is an important dimension of accountability reporting.

Appendix A

FSD&A REPORTING FRAMEWORK



BASIS FOR CONCLUSIONS

TABLE OF CONTENTS **Paragraph**

Introduction

BC.01 This Basis for Conclusions is a supporting document to the PSAB Exposure Draft, "Narrow-scope Amendments: SORP-1, Consistency Updates." It summarizes the Board's considerations in reaching its conclusions.

BC.02 This Basis for Conclusions is non-authoritative guidance issued by PSAB.

BC.03 PSAB will review and deliberate on the responses to the Exposure Draft before approving the final SORP-1 narrow-scope amendments.

Intended outcomes and expected effects

BC.04 The proposed narrow-scope amendments are important for maintaining the quality of the PSA Handbook and related guidelines for users, and include the following:

(a) Terminology updates intended to include all public sector entities and to maintain consistency with the new Conceptual Framework and the Reporting Model, which come into effect beginning on or after April 1, 2026.

(b) Clarifications intended to help preparers apply the new Conceptual Framework and Reporting Model concepts and principles when preparing the FSD&A, improving the quality and decision-usefulness of the information for users.

Background

BC.05 SORP-1 was first issued in 2004, to provide a general framework for developing FSD&A information. As with all SORPs, the guidance contained therein is encouraged, not required, and does not form part of GAAP.

BC.06 In December 2022 and October 2023, PSAB issued the new Conceptual Framework and the Reporting Model, respectively, effective for periods beginning on or after April 1, 2026.

BC.07 The new Conceptual Framework and Reporting Model introduce new concepts and amendments to existing principles for financial statement reporting. These amendments enhance the user's ability to assess the financial performance and financial position of a public sector entity related to its overall public accountability.

BC.08 In December 2024, PSAB approved a narrow-scope project to update SORP-1, ensuring consistency with the Board's new foundational documents and key terminology. The proposed updates would be completed in time for the effective date of the new Conceptual Framework and Reporting Model.

Terminology updates

BC.09 In keeping with PSAB's ongoing commitment to use inclusive terminology, the proposed narrow-scope amendments include:

(a) replacing references to "governments" with "public sector entities" to better reflect the diversity in entities that apply Public Sector Accounting Standards (PSAS); and

(b) refining terminology to align with and uphold the inherent public accountability principles of PSAS, while including all public sector entities. For example, "taxation" was amended, where appropriate, to "public resources".

Conceptual Framework alignment

BC.10 The new Conceptual Framework introduces revisions to the qualitative characteristics, improving the value of the information being provided to users. Qualitative characteristics, combined with financial statement objectives, affect the nature and extent of financial information presented. These revised qualitative characteristics are not currently reflected in SORP-1, resulting in conceptual inconsistencies between information presented in a public sector entity's FSD&A and its financial statements.

BC.11 To ensure the continued relevance and applicability of SORP-1, PSAB proposes aligning the qualitative characteristics contained in SORP-1 with those contained in the Conceptual Framework.

Reporting Model alignment

BC.12 The Reporting Model contains principles that are relevant to the information contained in an FSD&A but are not currently reflected in SORP-1 guidance. These include:

(a) introducing financial and non-financial liabilities to differentiate between liabilities that represent a financial resource requirement arising from past events and those that do not; and

(b) introducing accumulated remeasurements as a component of net assets or net liabilities to provide information regarding changes in economic conditions not directly controlled by the entity, and that are less likely to be replicable, which is relevant in assessing the entity's financial performance.

BC.13 Additionally, the Reporting Model contains revisions to concepts that are not currently revised in the SORP-1 guidance. These include:

(a) amending the non-financial assets definition to improve the reporting of resources that provide future service potential, but do not meet the definition of a financial asset;

(b) revising the calculation of the net financial assets or net financial liabilities indicator (formerly known as "net debt") to be financial assets minus financial liabilities. This indicator measures financial assets available to provide services in the future and/or settle financial liabilities or the financial resources required to settle financial obligations. The proposed guidance encourages entities to include the meaning of the net financial assets or net financial liabilities indicator to support its understandability; and

(c) revising the presentation of financing transactions on the cash flow statement to improve on the user's understanding related to whether the public sector entity's activities resulted in the need for financing activities.

BC.14 An FSD&A's main objective is to clearly explain and highlight information underlying the statements of financial position and changes in financial position. PSAB determined the SORP-1 guidance should be amended to consider the Reporting Model principles (see paragraphs BC.12-BC.13) when preparing an FSD&A.