PSAB

Public Sector Accounting Board

Exposure Draft

Proposed Amendments to Section PS 3150

Tangible Capital Assets

December 2023

This Exposure Draft closes for comments on April 15, 2024.

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.
- Connect directly with PSAB by attending a webinar on this Exposure Draft. Session dates and registration information will be posted to the project page for Government Not-for-Profit: Capital Assets.
- Write a response letter and upload it via our online form. Response letters can be addressed to:

Michael Puskaric, MBA, 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.

This Exposure Draft reflects proposals made by PSAB.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

INTRODUCTION

In March 2022, PSAB approved as its Government Not-for-Profit (GNFP) Strategy, public sector accounting standards (PSAS) incorporating the PS 4200 series with potential customizations. This Exposure Draft is the first in a series to implement PSAB's GNFP Strategy.

HIGHLIGHTS

PSAB proposes, subject to comments received following exposure, to issue amendments to its TANGIBLE CAPITAL ASSETS, Section PS 3150, resulting from a review of CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4230, and COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4240, as part of its GNFP Strategy implementation plan.[1]

For government not-for-profit organizations (GNFPOs) currently applying the PS 4200 series, once the entity applies Section PS 3150, Sections PS 4230 and PS 4240 will no longer apply.

The Basis for Conclusions, which accompanies this Exposure Draft, sets out PSAB's reasons for the key changes proposed to the tangible capital asset standard.

Main features of the Exposure Draft

The accounting guidance found in Sections PS 4230 and PS 4240 were compared to the accounting guidance found in Section PS 3150 to identify key differences that warranted additional work.

The Exposure Draft proposes the following:

- Amending the definition of "tangible capital asset" in paragraph PS 3150.05(a) for only a minor clarification.
- Retaining the emphasis on recognizing the complete stock of tangible capital assets in Section PS 3150.
- Not recognizing works of art, historical treasures and collections as outlined in Section PS 3150.
- Adding guidance to Section PS 3150 to identify a "collection".
- Adding more disclosures to Section PS 3150 to convey the importance of works of art, historical treasures and collections.
- Adding guidance to Section PS 3150 to clarify the accounting treatment for situations when a tangible capital asset is purchased at substantially below fair value.
- Adding guidance to Section PS 3150 to clarify the accounting treatment for contributed materials and labour in determining the cost of a constructed tangible capital asset.
- Sections PS 4230 and PS 4240 will no longer apply once Section PS 3150 is adopted .

Capital asset definition

The definition for capital assets found in Section PS 4230 includes intangible properties. This is different than the definition for "tangible capital assets" found in Section PS 3150. In fact, the CPA Public Sector Accounting (PSA) Handbook (outside of the PS 4200 series) does not permit the recognition of intangible assets other than those that have been purchased (in accordance with Public Sector Accounting Guideline (PSG) 8, Purchased Intangibles), and computer software (in accordance with Section PS 3150). Therefore, intangibles that are constructed or developed are not recognized outside of the PS 4200 series.

1 Material that links to the CPA Canada Public Sector Accounting Handbook is available to subscribers only. However, all information needed to respond is provided in this Exposure Draft.

PSAB understands that for GNFPOs applying the PS 4200 series, this would not result in a significant change from current practice as most intangibles currently being recognized relate to either purchased licenses or computer software. However, if there are some GNFPOs applying the PS 4200 series that recognize intangible assets beyond computer software or purchased intangibles, the proposed transitional provisions and expected Intangible Assets standard, will result in minimal changes to current practices.

A minor amendment to the definition is proposed to clarify that tangible capital assets have been acquired, constructed or developed. This clarification was based on the guidance found in Section PS 4230.

Capital asset recognition exemption

Section PS 3150 indicates that public sector entities need to present information about the complete stock of their tangible capital assets and amortization in the financial statements to demonstrate stewardship and the cost of using those assets to deliver programs and provide services. For GNFPOs applying the PS 4200 series, there is an option in paragraph PS 4230.03 to not recognize capital assets if the public sector entity's average of annual revenues recognized in the statement of operations for the current and preceding period of the organization and any entities it controls is less than $500,000. The proposal is to not incorporate this option into Section PS 3150. As a result, all public sector entities (including all GNFPOs) will be required to recognize tangible capital assets in accordance with Section PS 3150.

The benefits of recognizing all tangible capital assets are expected to outweigh the costs.

Works of art, historical treasures and collections

Section PS 3150 specifically acknowledges that works of art and historical treasures are property that has cultural, aesthetic or historical value that is worth preserving perpetually. However, given the challenges associated with determining a reasonable estimate of the future benefits associated with such property, there is no recognition in a public sector entity's financial statements. The existence of such property is disclosed in the notes to the financial statements. This differs from guidance in Sections PS 4230 and PS 4240 permitting the recognition of such property. However, the PS 4200 series provides little guidance on how to recognize such property, which has led to a diversity in current practice for those entities that apply the PS 4200 series. The proposal is to continue to provide disclosures only for such assets.

PSAB understands that this may result in changes to a public sector entity's current practice. However, this will promote consistency and comparability among all public sector entities.

Plans for finalizing the proposals

PSAB will deliberate the proposals in light of comments received. Part of the deliberation process includes consulting with the GNFP Advisory Committee. The Board will provide updates about its deliberations in its decision summaries and on the GNFP: Capital Assets project page.

CONSEQUENTIAL AMENDMENTS

As required, consequential amendments would be made to other standards in the PSA Handbook.

Comments requested

While PSAB welcomes comments on all the proposals in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. Do you agree with retaining the existing definition of "tangible capital assets" in paragraph PS 3150.05(a) with only the proposed amendment to clarify that tangible capital assets are acquired, constructed and developed? That is, do you agree that amending the definition of "tangible capital asset" in Section PS 3150 to include "intangible properties" is not needed as PSAB's Intangible Asset project will address the topic from a broader perspective and the proposed transitional provisions in this Exposure Draft will minimize any significant implications (see paragraphs 15 and 20-31 in the Basis for Conclusions)?

2. Do you agree with not incorporating the capital asset recognition exemption from Section PS 4230 into Section PS 3150 (see paragraphs 15 and 32-36 in the Basis for Conclusions)? Please explain how this might impact your entity.

3. Do you agree that providing note disclosure only for works of art, historical treasures and collections will provide relevant information for interested and affected parties (see paragraphs .42(e), .43 and .44 for proposed disclosures and guidance as well as paragraphs 37-48 and 67-68 for the rationale in the Basis for Conclusions)?

4. Do you agree the proposed note disclosure for works of art, historical treasures and collections will provide relevant information for interested and affected parties (see paragraphs .42(e), .43 and .44 for proposed disclosures and guidance as well as paragraphs 37-48 and 67-68 for the rationale in the Basis for Conclusions)?

5. Do you agree the proposed note disclosures for works of art, historical treasures and collections should be available to all public sector entities that may hold such assets (see paragraphs .42(e), .43 and .44 for proposed disclosures and guidance as well as paragraphs 37-48 and 67-68 for the rationale in the Basis for Conclusions)?

6. Do you agree with adding the proposed guidance for situations where an entity purchases a tangible capital asset at substantially below fair value that, in substance, a portion of the purchase was a contribution and should be accounted for accordingly? Is the proposed guidance clear that you must consider the substance of the transaction and that this would not pertain to ordinary purchases of capital assets? Do you believe the proposed guidance may lead to unintended consequences (see paragraph .10A for the additional proposed guidance and paragraphs 49-55 for rationale in the Basis for Conclusions)?

7. Do you agree that adding the proposed guidance for situations where contributed materials and labour are provided in determining the cost of constructing a tangible capital asset is helpful? Do you believe the proposed guidance may lead to unintended consequences (see paragraph .10 for the additional proposed guidance and paragraphs 56-60 for rationale in the Basis for Conclusions)?

8. Do you agree with the proposed transitional provisions (paragraphs.45-.47) and the rationale outlined in the Basis for Conclusions (paragraphs 61-66)?

9. Are there any other issues that you would like to raise for consideration?

PROPOSAL

Section PS 3150 would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough.

Note – As part of its 2022-2023 Annual Improvements project, PSAB approved replacing most references to “government” in Section PS 3150 with “public sector entity”. In addition, the guidance related to “Transitional Provisions for Local Governments” is being withdrawn. These changes are expected to be reflected in the PSA Handbook by February 2024.

SECTION PS 3150
tangible capital assets

TABLE OF CONTENTS — Paragraph

PURPOSE AND SCOPE

...

DEFINITIONS

.05 The following definitions have been adopted for the purposes of this Section:

(a) **Tangible capital assets** are non-financial assets[2] having physical substance that:

- (i) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
- (ii) have been acquired, constructed or developed;
- (iii) have useful economic lives extending beyond an accounting period;
- (iv) are to be used on a continuing basis; and
- (v) are not for sale in the ordinary course of operations.

...

ACCOUNTING

...

.08 Works of art and historical treasures are property that has cultural, aesthetic or historical value that is worth preserving perpetually. Works of art and historical treasures would not be recognized as tangible capital assets in ~~government~~ financial statements because a reasonable estimate of the future benefits associated with such property cannot be made. Nevertheless, the existence of such property should be disclosed (see paragraph PS 3150.42(e)).

.08A Collections are works of art, historical treasures or similar assets that are:

(a) held for public exhibition, education or research; and

(b) protected, cared for and preserved.

.08B Although collections are usually held by museums or galleries, other organizations may also have items that meet the definition of a collection. For example, an organizations' library may include rare books which would be considered to be a collection for purposes of this Section. The regular library materials, however, would not usually meet the definition of a collection.

MEASUREMENT

Cost

...

.10 The cost of a tangible capital asset includes the purchase price of the asset and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties. The cost of a constructed asset would normally include direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. In some cases, the cost of a constructed asset or developed asset may include contributed materials and/or labour which would be recognized at fair value at the date of contribution. The activities necessary to prepare a tangible capital asset for its intended use encompass more than the physical construction of the tangible capital asset. They include the technical and administrative work prior to the commencement of and during construction.

2 For the purposes of this Section, tangible capital assets are defined to include computer software.

.10A A tangible capital asset acquired at substantially below fair value would also be recognized at its fair value with the difference between the consideration paid for the tangible capital asset and fair value reported as a contribution, in accordance with REVENUE, Section PS 3400, or RESTRICTED ASSETS AND REVENUE, Section PS 3100. When the tangible capital asset is purchased from an entity that is part of the same reporting entity, refer to INTER-ENTITY TRANSACTIONS, Section PS 3420.

...

Asset retirement obligations

...

Amortization

...

Write-downs

...

Disposals

...

PRESENTATION ~~AND DISCLOSURES~~

.40 *The financial statements should disclose, for each major category of tangible capital assets and in total:*

- *(a) cost at the beginning and end of the period;*
- *(b) additions in the period;*
- *(c) disposals in the period;*
- *(d) the amount of any write-downs in the period;*
- *(e) the amount of amortization of the costs of tangible capital assets recognized as an expense for the period;*
- *(f) accumulated amortization at the beginning and end of the period; including the amount of any write-downs; and*
- *(g) net carrying amount at the beginning and end of the period, including major categories of tangible capital assets not being amortized.* [APRIL ~~2005~~2029]

.41 Major categories of tangible capital assets would be determined by type of asset, such as land, buildings, equipment, roads, water and other utility systems, and bridges.

.42 *Financial statements should also disclose the following information about tangible capital assets:*

- *(a) the amortization method used, including the amortization period or rate for each major category of tangible capital asset;*
- *(b) the net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;*
- *(c) the nature and amount of contributed tangible capital assets, including contributed materials and labour included in the cost of a constructed tangible capital asset, received in the period and recognized in the financial statements;*
- *(d) the nature and use of tangible capital assets recognized at nominal value, including*

contributed tangible capital assets;

(e) *the nature of the works of art ~~and~~, historical treasures and collections held by the public sector entity; ~~and~~, including:*

   (i) *a description of the relevance of the works of art, historical treasures and/or collections in relation to the delivery of public sector services;*

   (ii) *a description of the material increases (e.g., donations or repatriations received) and decreases (e.g., disposals or repatriations made) related to its works of art, historical treasures and collections in the period;*

   (iii) *the amount of expenditures associated with protecting and preserving its works of art, historical treasures and collection items in the period;*

   (iv) *when works of art, historical treasures and collection items are acquired, the amount expensed in the current period; and*

   (v) *if works of art, historical treasures and collection items are sold in the current period, the proceeds of the sales and how the proceeds were used.; and*

(f) *the amount of interest capitalized in the period. [~~SEPT 1997.~~APRIL 2029]*

~~TRANSITIONAL PROVISIONS FOR LOCAL GOVERNMENTS~~

.43 The disclosure requirements specific to works of art, historical treasures and collections help provide an understanding of the importance of such assets held by a public sector entity. Factors a public sector entity may consider, in determining what information to disclose include, but are not limited to:

(a) the highly aggregate nature of the financial statements;

(b) the usefulness of the information to the reader;

(c) the qualitative value (e.g., cultural significance) and/or quantitative value (e.g., financial effect) of such assets; and

(d) certain laws, acts or statutes for example, Article 11 contained in the schedule to the United Nations Declaration on the Rights of Indigenous Peoples Act.

.44 Information about tangible capital assets recognized at a nominal value helps provide an understanding of the organization's economic resources. This information would include the difficulties in obtaining the fair value of the contributed tangible capital asset and any details about the assets that would affect their usefulness to the organization: their ages, locations, present or potential uses and estimated remaining useful lives.

TRANSITIONAL PROVISIONS

.45 This Section applies to fiscal years beginning on or after April 1, 2029. Earlier adoption is permitted.

.46 For government not-for-profit organizations that applied the PS 4200 series, when transitioning to this Section, it would be applied retroactively with restatement of prior periods. In certain circumstances, it may be extremely difficult to obtain the necessary financial data to enable a change in an accounting policy to be applied retroactively. In such circumstances, the new accounting policy would be applied prospectively.

.47 For all other public sector entities (i.e., those that do not apply the PS 4200 series), the amendments would be applied retroactively with restatement of prior periods.

BASIS FOR CONCLUSIONS

TABLE OF CONTENTS — Paragraph

Introduction

1 This Basis for Conclusions is a supporting document to PSAB's Exposure Draft, "Tangible Capital Assets, Proposed Amendments to Section PS 3150." The primary objective of a Basis for Conclusions document is to set out how the Board reached its conclusions. These documents are intended to assist financial statement users, preparers, auditors and other interested and affected parties in public sector financial reporting in understanding the Board's rationale when proposing its amendments.

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

3 Prior to approving a final standard, PSAB will review and deliberate responses to the Exposure Draft.

Background

4 In March 2022, PSAB approved, as its GNFP Strategy, incorporating the PS 4200 series into PSAS with potential customizations.

5 This GNFP Strategy is expected to:

- improve existing comparability of financial statements;
- provide a tool and some flexibility for PSAB (given the ability to propose customizations, when appropriate); and
- make certain guidance within the PS 4200 series available to all public sector entities, if appropriate.

6 In June 2022, PSAB approved its GNFP Strategy implementation plan. The review of the PS 4200 series will be broken down into various standard-level projects.

7 In December 2022, PSAB approved the GNFP Capital Assets project. This project encompasses a review of the PS 4200 series standards related to CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4230, and COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4240, to determine what amendments should be proposed to TANGIBLE CAPITAL ASSETS, Section PS 3150.

8 As a result of proposed amendments to Sections PS 3150, Sections PS 4230 and PS 4240 will no longer apply once an entity applies Section PS 3150. Sections PS 4230 and PS 4240 will be withdrawn from the PSA Handbook once the complete review of the PS 4200 series is performed.

9 This is the first in a series of standard-level projects to implement the GNFP Strategy. Once all standard-level projects have been completed, the PS 4200 series will be withdrawn and there will no longer be a suite of standards specific to government not-for-profit organizations (GNFPOs). Instead, there may be customizations specific to GNFPOs within PSAS if PSAB determines substantive and distinct accountabilities warrant modification.

10 The existing PS 4200 series were established when GNFPO's began applying the PSA Handbook in 2012. Since their issuance, the capital assets and collections standards have remained largely unchanged.

11 The review of the PS 4200 series considers:

- if similar guidance already exists in the PSA Handbook as that found in the PS 4200 series;
- when there is no similar guidance in the PSA Handbook, should the guidance be retained as a customization because the guidance addresses a matter specific to GNFPOs or are

there other public sector entities that might benefit from such guidance;

- if that guidance is consistent with PSAB's Conceptual Framework for Financial Reporting in the Public Sector; and
- what other standard setters are doing regarding that particular topic (i.e., consider the International Public Sector Accounting Standards Board and Accounting Standards Board (AcSB) guidance).

12 Consequently, for each issue, PSAB contemplated three options:

- bring forward the existing guidance in Sections PS 4230 and PS 4240 as amendments to Section PS 3150 available to all public sector entities; or
- bring forward the existing guidance in Sections PS 4230 and PS 4240 as a customization to Section PS 3150 so that the guidance would be available only to GNFPOs; or
- make no amendments to Section PS 3150. The existing guidance in Sections PS 4230 and PS 4240 would be discontinued or no longer permitted.

13 To help determine if a customization was warranted, PSAB considered whether GNFPOs had a substantive and distinct reason for a different accounting or presentation treatment than other public sector entities.

14 To help assess each option, PSAB considered the potential impact on comparability:

(a) between governments and GNFPOs;

(b) across all GNFPOs; and

(c) between GNFPOs and private sector not-for-profit organizations (NFPOs).

Considering the potential impact on comparability is important: because one of the GNFP Strategy's main benefits is to improve existing comparability. The implications to PSAB and other projects were also considered.

Effects Analysis

15 The proposals to address the capital asset definition and the capital asset recognition exemption are not expected to have significant implications on the current practice for GNFPOs currently applying Sections PS 4230 and PS 4240.

16 The additional proposed guidance to Section PS 3150 is intended to help ensure consistent application of the accounting standard and to provide additional clarity on the topics if such a situation arises.

17 The proposals' most significant impact pertains to works of art, historical treasures and collections. PSAB acknowledges that the proposals to address works of art, historical treasures and collections may cause some GNFPOs to derecognize some assets currently being recognized on the statement of financial position. However, having all public sector entities account for these assets in a consistent manner will address the existing diversity in practice, alleviate the challenges associated with determining cost for such assets and improve comparability within the public sector. The relevant information for these assets is retained in the financial statement note disclosures. The Board understands that not allowing the recognition of these items at either cost or nominal value on the statement of financial position may impede comparability between a GNFPO and its private sector counterpart. Having said that, private sector NFPOs currently have a choice to recognize collections at either cost or nominal value so comparability may already be limited.

18 In light of its commitment to reconciliation with Indigenous peoples, PSAB contemplated Articles 11, 12 and 31 of the United Nations Declaration on the Rights of Indigenous People (UNDRIP) to reflect circumstances related to lost artifacts and treasures.

Issue Analysis

19 The following key issues have been identified:

- capital asset definition;
- capital asset recognition exemption;
- recognition of works of art, historical treasures and collections;
- purchases substantially below fair value; and
- contributed materials and labour.

Capital asset definition

20 Paragraph PS 3150.05(a) defines "tangible capital assets" as:

non-financial assets[3] having physical substance that:

(i) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;

(ii) have useful economic lives extending beyond an accounting period;

(iii) are to be used on a continuing basis; and

(iv) are not for sale in the ordinary course of operations.

21 Paragraphs PS 4230.05(b)-(c) define "capital assets" and "intangible properties" as follows: Capital assets, comprising tangible properties such as land, buildings and equipment, and intangible properties are identifiable assets that meet all of the following criteria:

(i) are held for use in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other capital assets;

(ii) have been acquired, constructed or developed with the intention of being used on a continuing basis;

(iii) are not intended for sale in the ordinary course of operations; and

(iv) are not held as part of a collection.

Intangible properties are capital assets that lack physical substance. Examples of intangible properties include copyrights, patents and software.

22 The capital asset definitions are similar between Sections PS 3150 and PS 4230 except for the inclusion of intangible properties in Section PS 4230. Paragraph PS 3150.03 specifically excludes intangible assets that have not been purchased by a government.[4] These items were excluded from recognition in PSAS, outside of the PS 4200 series, on the basis that their costs, benefits and economic value could not be reasonably and verifiably quantified using existing methods.

23 Paragraph PS 3150.05(a) specifically includes computer software in the definition of "tangible capital assets" with a footnote. When Section PS 3150 was developed, computer software was considered integral to the related hardware and thus considered to be part of the tangible capital asset.

24 Furthermore, all public sector entities are able to recognize purchased intangibles in accordance with PSG-8, Purchased Intangibles.

---

3 For purposes of this Section, tangible capital assets are defined to include computer software.

4 As part of the 2022-2023 Annual Improvements, the term "government" will be replaced with "public sector entity".

25 The key difference between Sections PS 3150 and PS 4230 is that Section PS 4230 has broader application as it addresses capital assets, including intangible properties, which are acquired, constructed or developed. Thus, recognition of intangible properties constructed or developed is possible for those GNFPOs applying the PS 4200 series, but not permitted for all other public sector entities.

26 Based on limited research undertaken, it appears that intangibles recognized in GNFPO's financial statements relate to either licences or computer software. Assuming the licences are purchased, they would be accounted for in accordance with PSG-8 and computer software is accounted for in accordance with Section PS 3150.

27 Furthermore, PSAB recently approved the Intangible Assets project. This project will develop a new accounting standard and provide guidance on recognition, measurement and disclosure of intangible assets held by all public sector entities that apply the PSA Handbook, including GNFPOs.

28 The Intangible Assets project will apply PSAB's International Strategy. Thus, the principles from International Public Sector Accounting Standard (IPSAS) 31, *Intangible Assets*, will be considered the starting point for the project. Therefore, one of the considerations is intangible heritage assets. As per IPSAS 45, *Property Plant and Equipment*, heritage assets include works of art and historical treasures. Recognition of works of art, historical treasures and collections explores this more.

29 Finally, the proposed transitional provisions for implementing the GNFP Strategy envisions an effective date that takes into consideration the expected completion of PSAB's Intangible Asset standard.

30 PSAB acknowledges that the immediate reaction to continuing the exclusion of recognizing intangible assets beyond computer software and those purchased may seem disadvantageous. However, given both the anticipation of guidance from the Intangible Assets project and the proposed transitional provisions, this proposed approach provides simplicity to the upcoming changes.

31 PSAB believes that this approach will not result in any significant changes to current practice for those GNFPOs applying Section PS 4230.

Capital asset recognition exemption

32 Section PS 4230 allows GNFPOs to disclose information regarding their capital assets rather than recognize them if the average of annual revenues recognized in the statement of operations for the current and preceding period of the organization and any entities it controls is less than $500,000.

33 Section PS 3150 does not provide such an option. In fact, paragraph PS 3150.06 emphasizes the need to account for the complete stock of tangible capital assets to demonstrate stewardship and the cost of using those assets to deliver programs and provide services.[5]

34 Chapter 2 of the Conceptual Framework for Reporting in the Public Sector notes that public sector entities have a responsibility for the stewardship of public resources that have been entrusted to them. As resource providers, the public demands public accountability regarding how public resources are used, managed and maintained.

35 The GNFP Advisory Committee acknowledged that some GNFPOs may have capacity constraints that might impact their ability to operationalize certain accounting standards, but this may also be true of some other smaller public sector entities. Therefore, there is no basis to continue this recognition exemption as a potential customization specific to GNFPOs.

---

5 Paragraph PS 3150.06 states: "Governments need to present information about the complete stock of their tangible capital assets and amortization in the financial statements to demonstrate stewardship and the cost of using those assets to deliver programs and provide services."

36 PSAB supports the recognition of all tangible capital assets by an entity as this supports the public sector entity's accountability for the resources that have been entrusted to them.

Recognition of works of art, historical treasures and collections

37 Section PS 4230 addresses works of art and historical treasures that are not part of a collection. These would be recognized as capital assets if the organization has technology and financial ability to protect and preserve such items. Additional guidance is provided related to amortization for these assets.

38 Section PS 4240 addresses collections. Criteria are provided to help identify a collection. Acknowledging the valuation challenges, collections are not required to be recognized but it is not precluded either.

39 Although Section PS 4240 does not preclude capitalization of collections, the Section provides no additional guidance to determine the cost of collections or when to use a nominal value versus cost to record collections on the statement of financial position.

40 Chapter 9 of the Conceptual Framework for Financial Reporting in the Public Sector notes that it is possible an item will meet the definition of an element but still not be recognized in the financial statements because it is not expected that the future economic benefits will be obtained or given up or because a reasonable estimate cannot be made of the amount involved.[6] It may be appropriate to provide information about items that do not meet the recognition criteria in notes to the financial statements.

41 Recognition of works of art and historical treasures is not permitted in the PSA Handbook (outside of the PS 4200 series) because a reasonable estimate of the future benefits associated with such property cannot be made. Instead, the existence of such property is disclosed. The term "collections" is not defined or used in the PSA Handbook, outside of the PS 4200 series.

42 Based on a limited review of financial statements and the experience of the GNFP Advisory Committee members, practices seem to be mixed for recognizing collections in the public sector. Some organizations have chosen to recognize collections at a nominal amount, and it was noted that some may be recognized at cost on the statement of financial position; others have simply chosen to disclose information in the notes to the financial statements about their collections.

43 Based on a limited review of GNFPO financial statements, practices seem to be mixed as to whether works of art and/or historical treasures are capitalized as part of tangible capital assets. In some situations, various items (e.g., exhibits or art assets) are included in tangible capital assets; in other situations, they are included in tangible capital assets at a nominal value.

44 PSAB acknowledges the challenges that exist to determine cost of such assets and given the cost/benefit analysis, recognition may not be appropriate. The Board appreciates that, especially for some GNFPOs, these assets are extremely important to the basic mission of the organization, such as a museum. Thus, it is important that financial statement users are aware of the relevant information provided in the notes to the financial statements about such assets.

45 Adding the proposed guidance in Section PS 3150 to describe a collection would ensure consistent terminology is being applied in the financial statement notes to enhance the understandability of the information provided. The proposed description was taken from Section PS 4240. However, one of the criteria in Section PS 4240 was not incorporated into the

6 Paragraph PS 3210.03 states: "An asset is a present economic resource controlled by a public sector entity as a result of a past event(s) and from which future economic benefit is expected to be obtained."
Paragraph PS 3210.04 states: "Assets have three essential characteristics:
(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.
(b) The public sector entity controls the economic resource and access to the future economic benefit(s).
(c) The transaction or other event(s) giving rise to the public sector entity's control has already occurred.

description added to Section PS 3150. That criterion requires an organizational policy specifying that any proceeds from the sale of a collection item be used to acquire other items to be added to the collection or for the direct care of existing collection items. This is an internal management policy requirement. Management can change this policy. Also, external restrictions on the use of such items are not considered. No change in practice is anticipated from removing this criterion.

46 Furthermore, the proposed disclosures would lead to improved accountability information in the financial statements and are expected to ensure users have appropriate and relevant information to understand and assess:

- the nature and relevance of the works of art and historical treasures that are not included in the public sector entity financial statements;
- the extent to which being responsible for protecting and preserving such items impacts the public sector entity cash flows; and
- the financial performance implications associated to the purchase and sale of works of art and historical treasures, including the allocation of proceeds resulting from works of art, and historical treasures disposals.

47 All additional disclosure requirements are being made available to all public sector entities with similar type assets. However, the intent is not to require a listing of all works of art, historical treasures and/or collections that a public sector entity may hold. It is important to remember that the level of detail a public sector entity discloses reflects the highly aggregated nature of the financial statements. In deciding on the level of detail to be disclosed, a public sector entity would need to consider the usefulness of the information to the reader of the financial statements. Superseded FINANCIAL STATEMENT PRESENTATION, Section PS 1201, notes that PSAS need not be applied to immaterial items. Consideration is needed of not only the items' quantitative value but also their qualitative value. For some works of art, historical treasures and collections, the dollar value may be immaterial but from a qualitative perspective, their cultural and historical importance may provide useful information for accountability and decision-making of interested and affected parties. There may also be relevant laws, statutes or acts that could be considered, for example, the United Nations Declaration on the Rights of Indigenous Peoples Act.

48 Some works of art, historical treasures and collections incorporate both tangible and intangible elements. To ensure consistency in approach, PSAB considered what disclosures would be relevant. Although intangible assets are outside this project's scope, it was appropriate to consider these specific types of assets together. This will help inform the Board's Intangible Assets project.

Purchases substantially below fair value

49 Section PS 4230 includes guidance for situations where a capital asset is purchased at substantially below fair value. In these situations, the capital asset would be recognized at its fair value with the difference between the consideration paid for the capital asset and fair value reported as a contribution.

50 Section PS 3150 has no such guidance.

51 PSAB agreed that for most tangible capital asset purchases, the tangible capital asset would be recognized at cost that, at date of acquisition, should approximate the fair value.

52 This guidance is intended to apply to those situations when a public sector entity is, in substance, receiving a contribution toward the acquisition of a tangible capital asset. That is, when an entity purchases a tangible capital asset at substantially below its fair value, the difference between the fair value of the tangible capital asset and the purchase price, in substance, is more of a contribution in nature.

53 The intent of the guidance, for these scenarios, is to recognize the substance of the events, a contribution and a tangible capital asset purchase.

54 As per the guidance in paragraph PS 3150.14, when a tangible capital asset is contributed to a public sector entity, its cost is equal to the fair value at the date of contribution.

55 PSAB thinks adding this proposed guidance promotes consistent application of the standards, thus improving comparability. In addition, the proposed guidance would align with the AcSB's accounting treatment on purchases of capital assets below fair value.

Contributed materials and labour

56 Sections PS 3150 and PS 4230 provide guidance on determining the cost of a contributed capital asset, indicating that it should be considered equal to its fair value at the date of contribution.

57 However, when addressing the cost of a constructed asset, Section PS 4230 includes the possibility that some of the materials and labour directly attributed to the construction or development of a tangible capital asset may be contributed. Paragraph PS 4230.13 notes:

> The cost of a capital asset includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. A capital asset which is developed or constructed by an organization might include contributed materials or labour, which would be recognized at fair value at the date of contribution.

58 Although existing paragraph PS 3150.10 has similar guidance noting the cost of a constructed asset would include direct construction or development costs such as materials and labour, it does not refer to contributed materials and labour as part of the costs associated with construction or development costs.[7]

59 This additional guidance is specific to determining the cost of a constructed tangible capital asset. It is not meant to address situations where a public sector entity receives services in-kind.

60 PSAB believes adding this proposed guidance may help promote consistent application of the standards, thus improving comparability. In addition, the proposed guidance will align with the AcSB's accounting treatment on contributed materials and labour in determining the cost of a tangible capital asset.

Effective Date and Transition

61 Proposed amendments to Section PS 3150 will be effective for fiscal periods beginning on or after April 1, 2029. Earlier adoption is permitted.

62 Recognizing that this is the first in a series of standard-level projects to implement the new GNFP Strategy, PSAB considered two possible approaches for determining the effective date, with the goal of providing simplicity and flexibility to interested and affected parties. The first approach is to consider the effective date on an individual standard-level basis. Thus, each standard-level project to implement the GNFP Strategy could have a different effective date. The benefit of this approach is it would simplify the transition by staging the implementation and improve comparability as each standard-level project is completed. Interested and affected parties would still be given ample time to consider the proposals to help assess the entity's application of the standard. Entities that do not apply the PS 4200 series would have new guidance before the complete review of the PS 4200 series has been completed. The second approach is to consider the effective date based on the overall GNFP Strategy implementation; that is, when the review of the entire PS 4200 series is expected to be completed. The benefit of this approach is the

7 Paragraph PS 3150.10 states: "The cost of a tangible capital asset includes the purchase price of the asset and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties. The cost of a constructed asset would normally include direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. The activities necessary to prepare a tangible capital asset for its intended use encompass more than the physical construction of the tangible capital asset. They include the technical and administrative work prior to the commencement of and during construction."

flexibility it offers interested and affected parties to implement the proposed changes. It provides a long transition period for entities to assess the implications of the proposals and develop their implementation plan. The Board proposes determining an effective date based on the individual standard-level projects due to its simplicity and better meeting its objective of improving comparability in a shorter period of time.

63 Retroactive application with restatement of prior years' figures has been proposed. The ability to compare information over time is relevant and retroactive application with restatement would result in consistent information between reporting periods and between different public sector entities. Comparative information, when prepared on a consistent basis, provides useful information for financial statement users.

64 For those GNFPOs applying the PS 4200 series, Sections PS 4230 and PS 4240 will remain in effect until the adoption of Section PS 3150, which is for fiscal periods beginning on or after April 1, 2029, unless a public sector entity elects earlier adoption.

65 For all other public sector entities, the amendments to Section PS 3150 are effective for fiscal periods beginning on or after April 1, 2029, unless a public sector entity elects earlier adoption.

66 Once the review of the entire PS 4200 series is completed, the PS 4200 series will be withdrawn from the PSA Handbook.

Other Matters

Reconciliation with Indigenous peoples

67 The Truth and Reconciliation Commission of Canada ("Commission") has called on all peoples of Canada to establish and maintain a mutually respectful relationship with Indigenous peoples. Certain Calls to Action by the Commission are specific to how museums and archives are complying with the UNDRIP. As a result, PSAB concluded that it was necessary to consider Articles 11, 12 and 31 of the UNDRIP, which relate to Indigenous peoples' rights to preserve and develop their cultural practices and artifacts and the States' responsibilities to protect the exercise of these rights.

68 The proposed disclosures expect to capture any significant events related to works of art, historical treasures and collections held by public sector entities. The additional guidance related to consideration of what should be disclosed is provided to emphasize the importance of considering what information would be relevant to the reader of the financial statements related to works of art, historical treasures and collections as this may be more qualitative considerations than quantitative. It may be helpful, in some situations, to consider the guidance in CONTINGENT ASSETS, Section PS 3320, or CONTINGENT LIABILITIES, Section PS 3300.

Minor enhancements

69 Some additional enhancements have been proposed to Section PS 3150 as a result of PSAB's review of Sections PS 4230 and PS 4240 that are intended to clarify the accounting guidance to ensure consistent application of the standard.