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Public Sector
Accounting Board

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International Public Sector Accounting Standards Board (IPSASB)
70 York Street, Suite 710
Toronto, ON M5J 1S9 Canada

Re: Response to the IPSASB's Presentation of Financial Statements Consultation Paper

Thank you for the opportunity to provide feedback on the IPSASB's Consultation Paper, *Presentation of Financial Statements*. PSAB supports the IPSASB's objective to enhance the effectiveness of communication in public sector financial statements, as well as to improve the understandability and accessibility of information presented within these statements. PSAB is committed to international collaboration and to promoting high-quality public sector accounting standards. PSAB brings a unique and directly relevant perspective to this consultation. Having recently completed its own comprehensive review of the Canadian public sector financial statement presentation standard, resulting in **Section PS 1202, *Financial Statement Presentation*** (effective April 1, 2026), PSAB understands both the opportunity and the complexity of modernizing a presentation standard for the public sector.

Section PS 1202 aims to provide users with understandable information to enhance accountability, consistent with the objectives of the IPSASB's Presentation of Financial Statements project. While Section PS 1202 reflects Canadian public sector accountability needs, the IPSASB may benefit from the references made to this standard throughout our response as Section 1202 considers the diverse nature of public sector entities in Canada (including federal, provincial, territorial, local and Indigenous governments). PSAB's views outlined in this letter were also informed by discussions with PSAB's Technical Advisory Group.

We hope our feedback can assist the IPSASB in developing a new IPSAS standard to replace IPSAS 1, *Presentation of Financial Statements,* that is internationally operable, and capable of aligning where appropriate with leading practices, including those reflected in Section PS 1202. We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Michael Puskaric, Director, Public Sector Accounting Standards Board (+1 416 204-3451 or email mpuskaric@psabcanada.ca).

Kind regards,

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RESPONSES TO THE PRELIMINARY VIEWS AND SPECIFIC MATTERS FOR COMMENT

Preliminary View 1—Chapter 1: Development of New Presentation Standard

> The IPSASB's Preliminary View is that the development of a new IPSAS Standard to replace IPSAS 1, Presentation of Financial Statements should consider IFRS 18 Presentation and Disclosure in Financial Statements, with appropriate adaptations to reflect the objectives of financial reporting by public sector entities.
>
> Do you agree with the IPSASB's Preliminary View?
>
> If not, please provide your reasons and clearly explain what you consider should be changed in the development approach.

PSAB agrees with Preliminary View 1 and supports the proposal to develop a new IPSAS based on IFRS 18 *Presentation and Disclosure in Financial Statements,* while maintaining a distinct public sector focus, with departures where needed. This approach will ensure the new standard reflects best practices while recognizing public sector objectives such as accountability and service delivery rather than private sector investor focus. IPSAS Standards and IFRS Accounting Standards share important conceptual and technical foundations. Maintaining alignment, where appropriate, is beneficial for comparability and understandability of public sector financial statements for users. Furthermore, many of IFRS 18 improvements, including clearer principles for the use of subtotals, and strengthened guidance on aggregation and disaggregation, address many of the same "communication effectiveness" concerns that exist in public sector reporting.

Preliminary View 2—Chapter 2: General Presentation Requirements

> The IPSASB's Preliminary View is to continue providing definitions on financial statement elements (aligned with the IPSASB Conceptual Framework and IFRS 18) in the new IPSAS Standard, and other definitions that support the understanding and application of presentation requirements.
>
> Do you agree with the IPSASB's Preliminary View?
>
> If not, please provide your reasons, and clearly explain what you consider from a public-sector perspective.

PSAB agrees with Preliminary View 2 as clear and consistent definitions are the foundation of a high-quality principles-based standard. Incorporating the IPSASB Conceptual Framework's definitions of elements (assets, liabilities, revenue, expense, etc.), aligning with IFRS 18, along with including other definitions directly into the new standard will promote consistency and support prepares to understand and apply the requirements correctly.

PSAB encourages the IPSASB to consider whether the future standard would benefit from including definitions that have no equivalent in IFRS 18 but are particularly important for the public sector. For example, Section PS 1202 introduces the concepts of financial and non-financial assets and financial and non-financial liabilities (discussed further under Preliminary View 5 and 7). These definitions are foundational to calculating the net financial assets or net financial liabilities indicator (internationally referred to as the net debt indicator) as this is a measure uniquely meaningful to public sector accountability. While we acknowledge financial assets and financial liabilities are defined in IPSAS 28, *Financial Instruments: Presentation,* the absence of the non-financial assets and non-financial liability definitions from the new IPSAS Standard could limit jurisdictions' ability to calculate an important public sector indicator.[1] Including public-sector-specific definitions in the new IPSAS Standard would help reinforce the distinctiveness of the public sector and reduce inconsistent application.

We also recommend that the IPSASB include definitions or explanations for any new terminology introduced by the new IPSAS (for example, if new subtotals or concepts are added as a result of other Preliminary Views).

Additional Observation – 'Net Financial Position' and 'Net Assets/Equity'

We acknowledge IPSASB's conclusion that the concepts of 'other resources' and 'other obligations' are currently confined to its Conceptual Framework. However, should IPSASB choose to apply these concepts at the Standards-level in the future, the new IPSAS Standard replacing IPSAS 1 would require revision to assess whether it is appropriate to adopt the term 'net financial position' in alignment with the IPSASB's Conceptual Framework, or to continue utilizing 'net assets/equity'.

Preliminary View 3—Chapter 2: General Presentation Requirements

The IPSASB's Preliminary View is to retain the existing requirements regarding comparative information, and to add the requirement for an additional Statement of Financial Position at the beginning of the preceding period when previously reported information has been materially impacted by a restatement or reclassification into IPSAS Standards, aligned with IFRS 18 requirements.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider from a public-sector perspective.

PSAB partially agrees with Preliminary View 3 and supports retaining the current IPSAS 1 provisions that require disclosure of comparative period information, as such information is fundamental to ensure comparability and supports users' ability to identify trends in financial position and performance. This is well established in Canadian practice and is consistent with Section PS 1202's requirements for prior-period comparisons.

However, PSAB disagrees with the proposal to introduce the requirement for a third Statement of Financial Position following a material restatement or reclassification. This additional statement may have

[1] PSAB defines a **non-financial asset** as an asset that does not meet the definition of a financial asset and a **non-financial liability** as a liability that does not meet the definition of a financial liability.

significant cost implications for public sector entities given that reorganizations that are not public sector combinations are frequent (e.g., ministries restructuring, program transfers). This is a distinct characteristic of the public sector which could lead to the proposed third Statement of Financial Position being needed regularly, not exceptionally. PSAB acknowledges that this specific proposal enhances transparency for users who rely on financial statements to analyze trends over multiple years while holding public sector entities accountable, particularly given the long-term nature of their operations. Because reorganizations that are not public sector combinations are considered routine in the public sector, entities could be required to present a third Statement of Financial Position every year, even though the incremental informational value may not justify the additional preparation costs (especially for smaller organizations). As an alternative approach, PSAB suggests that the IPSASB requires the material restatement or reclassification to be disclosed in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* to ensure users can clearly understand the impact on opening balances when implementing new IPSAS Standard, changing accounting policies or correcting errors while appropriately supporting the objective of the project.

Preliminary View 4—Chapter 2: General Presentation Requirements

The IPSASB's Preliminary View regarding the other general presentation requirements is to:

a) Retain existing IPSAS 1 guidance, without updates:

i. The responsibility of financial statements (paragraphs 2.9-2.10)

b) Retain existing IPSAS 1 guidance, with updates to align with IFRS 18 for the public sector context:

i. The objective of financial statements (paragraphs 2.4-2.8);

ii. The complete set financial statements (paragraphs 2.11-2.13);

iii. Identification of financial statements (paragraphs 2.20-2.21);

iv. Material information (paragraphs 2.33-2.34);

v. The other general presentation requirements in Table 2 (paragraphs 2.41-2.44);

c) Add new guidance, aligned with IFRS 18 and the IPSASB's Conceptual Framework:

i. The roles of the financial statements and notes (paragraphs 2.14-2.19); and

ii. The other general presentation requirements in Table 2 (paragraphs 2.41-2.44).

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed in the development approach.

PSAB supports Preliminary View 4 as follows:

a) **Retain existing IPSAS 1 guidance, without updates:** In general, the existing IPSAS 1 has served the public sector well, so we support carrying forward its core principles. For example, the requirement that management explicitly acknowledges its responsibility for the preparation of the financial statements should be retained, as this reinforces accountability. In Canada, Section PS 1202 has a similar requirement.

b) **Retain existing IPSAS 1 guidance, with updates to align with IFRS 18 for the public sector context:** We also agree with updating certain general requirements to align with IFRS 18, where appropriate, such as the objective of financial statements. In fact, this guidance is also consistent with Section PS 1202 regarding the qualitative characteristics of understandability and faithful representation. We also support retaining and updating the definition of a complete set of financial statements, and the related requirements for identifying the financial statements clearly. IPSASB's Preliminary View 4(b)(ii)-(iii) appropriately carries forward the IPSAS 1 definitions of the components comprising a complete set of financial statements, promoting consistency in practice across jurisdictions. In Canada, Section PS 1202 has a similar definition. However, there is an additional requirement related to the statement of net financial assets or net financial liabilities which displays the net financial assets/liabilities indicator (often referred as "net debt") to address a specific public sector characteristic. This extra statement highlights the difference between financial assets and financial liabilities, a key indicator of public sector entities' future resource needs or spending capacity. We mention this to illustrate that the Canadian public sector has found value in presenting additional information (such as the net financial assets/liabilities indicator) as part of the complete set of statements, consistent with the IPSASB's acknowledgment (in Chapter 3 of the CP) that some jurisdictions use a financial/non-financial distinction to present financial position (See Preliminary View 5). While we understand that the new IPSAS may not mandate a separate statement of net financial assets or net financial liabilities, the IPSASB may want to make this an optional statement for jurisdictions that see value in calculating the net financial assets/liabilities indicator when communicating to users affordability and service capacity aspects of financial position.

c) **Add new guidance, aligned with IFRS 18 and IPSASB's Conceptual Framework:** PSAB particularly agrees with the proposal to include new guidance on the distinct roles of primary financial statements versus notes. While IPSAS 1 did not previously specify these roles, Preliminary View 4(c)(i) will fill that gap by aligning with IFRS 18 and the IPSASB's Conceptual Framework. Although Section PS 1202 does not contain a standalone section titled "roles of the financial statements and notes" this addition is in line with the principles in Section PS 1202 that financial statements should communicate information in a structured, understandable way, that meets the qualitative characteristics of financial information. Defining the roles of statements and notes will also support preparers when making decisions about what information is required on the face (versus in notes or other reports).

Regarding the going concern assessment, we encourage the IPSASB to incorporate more explicit public-sector-specific going concern guidance in the new standard. Section PS 1202 includes the notion that governments are presumed to be going concern since they are long-term institutions, expected to operate in perpetuity. This is consistent with the Preface to IPSASB's Conceptual Framework, which notes that even though political leadership often changes and financial difficulties or sovereign debt defaults may occur, nation states generally persist for long periods. For instance, when sub-national entities encounter financial challenges, national governments may act as lenders of last resort to maintain service delivery. Furthermore, public sector entities that are unable to meet their obligations may sustain their existence by restructuring operations. These are important public-sector characteristics that are not adequately captured by IPSAS 1 nor IFRS 18 since they differ significantly from those of the private sector. It is also important to note that factors relevant to a going concern assessment differ across federal, provincial, territorial, local and Indigenous governments/organizations. Section PS 1202 recognizes that Indigenous governments may have going concern considerations linked to treaties, self-governing agreements, legislation, policy, and financial arrangements with other levels of government. While recognizing that such jurisdiction-specific detail may be beyond the scope of IPSAS, we encourage the IPSASB to at least highlight that preparers should consider their specific environment (for instance, reliance on other governments for funding or authority) when assessing going concern.

We also support the IPSASB's plan to add guidance on aggregation and disaggregation drawn from IFRS 18. In fact, Section PS 1202 states that to determine line items and note disclosures, items should be aggregated on the basis of shared characteristics, items that are not similar should not be aggregated, and aggregation or disaggregation should not obscure relevant information or reduce understandability, which is consistent with the approach outlined in IFRS 18.

Preliminary View 5—Chapter 3: Statement of Financial Position

The IPSASB's Preliminary View is that:

(a) The current/non-current approach be retained as the general approach for classifying assets and liabilities on the face of the Statement of Financial Position;

(b) The order of liquidity approach be retained, with application permitted on an exception basis; and

(c) The mixed approach be retained to allow some assets and liabilities to be presented using the current/non-current classification, and others are presented in order of liquidity.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed regarding the classification of assets and liabilities on the Statement of Financial Position.

PSAB does not agree with Preliminary View 5.

While PSAB fully supports the IPSASB's objective of improving the transparency and comparability of public sector financial statements, we respectfully submit that retaining the current/non-current approach as the general classification method does not best serve the accountability needs of public sector financial statement users. In PSAB's view, the financial/non-financial classification approach, which is well-established and operationally effective, and is used by a growing number of jurisdictions internationally, provides a more meaningful, accountability-focused foundation for presenting the Statement of Financial Position in the public sector context.

The Canadian public sector has applied a financial/non-financial classification model for a long time. This model was developed with over more than a decade of extensive consultation with interested and affected parties, including governments, auditors, academics, and public sector professionals.

The financial/non-financial classification approach was deliberately chosen because it:

- directly supports accountability by clearly distinguishing financial assets available to discharge existing financial liabilities or fund future operations from non-financial assets held for service delivery purposes;
- reflects the substance of public sector financial position more faithfully than a current/non-current approach, which was originally designed for the private sector context of working capital management and short-term solvency assessment; and
- aligns directly with IPSASB's "financial capacity" (i.e. the capacity of an entity to continue to fund its activities and meet its operational objectives into the future) and "operational capacity" (i.e. the physical and other resources currently available to support the provision of services in future periods) concepts included in Chapter 2 of IPSASB's Conceptual Framework in relation to the information needs of users.

PSAB appreciates the IPSASB's acknowledgment (at paragraph 3.29(e)) that "IPSAS 1 currently allows an entity the flexibility to disclose alternative classifications of assets and liabilities in the notes." However, PSAB respectfully submits that note disclosure is an insufficient accommodation for a presentation approach that fundamentally shapes the structure of the Statement of Financial Position.

In conclusion, PSAB encourages the IPSASB to reconsider its Preliminary View and to consider the financial/non-financial classification approach.

Preliminary View 6—Chapter 3: Statement of Financial Position

> The IPSASB's Preliminary View is that the specific line items required in IPSAS 1 should be carried forward, with enhancements limited to adding a new line for goodwill (to align with IFRS 18).
>
> Do you agree with the IPSASB's Preliminary View?
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> If not, please provide your reasons and clearly explain what line items should be added or removed from the list provided in Table 3.

PSAB supports maintaining a list of minimum line items that are required on the Statement of Financial Position, as this promotes consistency and ensures that key categories of assets, liabilities, and net assets/equity are considered by preparers. The existing IPSAS 1 list outlined in Table 3 (e.g., cash and cash equivalents, receivables, property, plant and equipment, payables, provisions, components of net assets/equity, etc.) captures the elements commonly found in public sector balance sheets. Retaining these provides continuity.

We also agree with the addition of a separate line for goodwill to align with IFRS 18, provided it is relevant and material to that entity's financial statements. Although goodwill (arising from public sector combinations) is not common, it can occur in rare circumstances. The explicit presentation of goodwill as a separate line item will provide users with a clear differentiation between goodwill and other intangible assets in those limited circumstances.

Preliminary View 7—Chapter 3: Statement of Financial Position

> The IPSASB's preliminary view is that IPSAS Standard should:
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> (a) Not prescribe a specific structure (i.e., order or format) for presenting the Statement of Financial Position; and
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> (b) Not require the presentation of specific subtotals on the Statement of Financial Position.
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> Do you agree with the IPSASB's Preliminary View?
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> If not, please provide your reasons and clearly explain what you consider should be changed regarding the structure and the presentation of specific subtotals.

PSAB agrees with Preliminary View 7 that the new IPSAS should not prescribe a single structure or format for presenting the Statement of Financial Position and should not require specific subtotals on the face of that statement. Public sector entities vary widely in size, complexity, and the nature of their operations; a single prescribed ordering or format, aside from the specific requirements noted, would not suit all cases. Allowing entities to determine a logical order of presentation enables them to communicate their financial position in the best way for their users while still meeting the standard's minimal content requirements. We do, however, have concerns that introducing this flexibility could have an unintended consequence of reducing comparability across jurisdictions. To address this concern, we encourage the IPSASB to include illustrative examples of different acceptable formats in its guidance. This will give preparers guidance on how they can tailor the presentation to their users needs while still complying with IPSAS. It is also important that the IPSASB make explicit that flexibility in the presentation is intended to improve communication, not to permit structure choices that reduce understandability and comparability.

The Consultation Paper explains that net debt is often measured based on local jurisdictional considerations and that it would be difficult to define a version that would be generally accepted and consistently applied across the international public sector. We agree with that assessment. Similarly, we agree that the standard itself should not mandate particular subtotals on the face of the Statement of Financial Position. Key performance indicators in the public sector (such as "net debt") can differ by jurisdiction and user needs. Attempting to define one set of required subtotals for all entities could diminish relevance for some and create inconsistency or confusion for others. Instead, we encourage the IPSASB, while not mandating a specific subtotal on the face of the Statement of Financial Position, to consider whether the future standard should more clearly acknowledge the importance of affordability indicators and permit or encourage their presentation where they are relevant to users' understanding of financial position.

Preliminary View 8—Chapter 4: Statement of Financial Performance

> The IPSASB's preliminary view is to present revenue and expense items recognized in surplus or deficit in categories on the Statement of Financial Performance. The categorization requirements are aligned with IFRS 18 requirements, with additional public sector guidance.
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> Do you agree with the IPSASB's Preliminary View?
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> If not, please provide your reasons and clearly explain what you consider should be changed (for example, if you prefer a specific public-sector specific categorization, such as those considered in paragraph 4.30, please explain why it would meet the criteria in paragraph 4.29).

PSAB disagrees that presenting revenues and expenses in defined categories on the Statement of Financial Performance will provide a more structured and informative summary of an entity's financial results. In our view, this requirement from IFRS 18 is useful in the private sector as users of financial statements assess the prospects for future net cash inflows to the entity and management's stewardship of the entity's economic resources. However, it is not clear how the proposed categorization would benefit and support decision making by users of public sector financial statements or demonstrate the accountability for the resources entrusted to the entity. Considering that most public sector entities applying the IPSASB Handbook:

- have the delivery of services to the public as their primary objective;
- mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees; and
- do not have a primary objective to make profits,

distinguishing between operating, financing and investing may not provide relevant information to users.

We believe that aligning categorization requirements with those in IFRS 18 may add unnecessary complexity to the Statement of Financial Performance and reduce comparability among jurisdictions, mainly in circumstances where public sector entities undertake a broad range of activities, including taxation, transfers, service delivery, policy implementation, investment management, and borrowing.

In Canada, PSAB chose not to adopt this approach because interested and affected parties reported no concerns with the presentation of the statement of operations, the equivalent statement to the IPSASB's statement of financial performance.

Preliminary View 9—Chapter 4: Statement of Financial Performance

> The IPSASB's preliminary view is to present totals and subtotals, and to permit entities to present additional subtotals, on the Statement of Financial Performance, as listed in paragraph 4.35. The total and subtotal requirements are aligned with IFRS 18 requirements, adapted for the public sector.
>
> Do you agree with the IPSASB's Preliminary View?
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> If not, please provide your reasons and clearly explain what you consider should be changed.

PSAB agrees with Preliminary View 9 to present required totals and subtotals and to permit additional subtotals on the Statement of Financial Performance, as listed in paragraph 4.35, provided these are adapted appropriately for the public sector. Particularly, PSAB supports retaining IPSAS 1 requirements to present "surplus or deficit" total as in Canada and many other jurisdictions, the annual surplus or deficit is a key figure of accountability. We also support introducing the requirement for entities to present 'operating surplus or deficit' subtotal as this measure is relevant in the public sector by providing information about the sustainability of services and programs.

PSAB also agrees with allowing public sector entities to present additional subtotals on the Statement of Financial Performance, as long as they meet certain qualitative criteria. This approach is consistent with Section PS 1202 requirements that additional line items, headings and subtotals be presented when necessary to provide an understandable overview of the entity's financial position and changes in financial position, while imposing safeguards that such subtotals must comprise recognized and measured amounts, be clearly labelled, be consistent from period to period, and not be displayed with more prominence than required totals and subtotals.

The Consultation Paper notes that the IPSASB did not propose a "Surplus or Deficit before Financing" subtotal because it may communicate a profitability narrative that is not appropriate or relevant in the public sector, although entities would still be permitted to present it if they conclude it provides useful information. PSAB agrees with this approach and suggests that the new standard includes illustrative examples of acceptable additional subtotals in the public sector. For example, since the IPSASB chose not to require a "Surplus or Deficit before Financing" subtotal but acknowledges some may find it useful, it would be helpful to illustrate how an entity might voluntarily present that.

PSAB further suggests that the IPSASB consider the interaction between Preliminary View 9 and Preliminary Views 16 regarding management-defined performance measures (MPMs). Because the IPSASB does not currently propose to import the IFRS 18 MPMs into IPSAS Standards, the criteria in paragraph 4.35 become especially important. In our view, these principles allow preparers to communicate legitimate public sector reporting needs on a consistent basis.

Preliminary View 10—Chapter 4: Statement of Financial Performance

> The IPSASB's preliminary view is to maintain the minimum requirements regarding the presentation of line items on the face of the Statement of Financial Performance, with additional guidance. The minimum line items presentation requirements are aligned with IFRS 18 requirements, with additional public sector guidance.
>
> Do you agree with the IPSASB's Preliminary View?
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> If not, please provide your reasons and clearly explain what you consider should be changed.

PSAB agrees with Preliminary View 10. Maintaining minimum requirements for the presentation of line items on the face of the Statement of Financial Performance, supported by additional guidance, is an appropriate approach. A principles-based framework that establishes a minimum threshold for line item presentation, supplemented by guidance to assist preparers, strikes a reasonable balance between comparability and flexibility. This approach is consistent with the general presentation principles in Section PS 1202, which similarly permit additional line items, headings and subtotals when they are relevant to understanding the entity's financial position and change in financial position.

PSAB does acknowledge the need for public-sector-specific line items beyond those in IFRS 18. While aligning with IFRS 18 provides a useful starting point, the IPSASB should ensure the minimum list of line items captures items that are unique to, or significantly more prevalent in, the public sector. For example:

- Government transfers given and received — these often represent a substantial portion of public sector revenues and expenses and should be separately identifiable.
- Taxation revenue — this is a defining feature of government operations and should be presented as a required minimum line item.

Specific Matter for Comment 1—Chapter 4: Statement of Financial Performance

> The IPSASB proposes to maintain the requirements to present expenses by the nature of the expenses or by their function to the entity on the face of the Statement of Financial Performance, in alignment with IFRS 18 requirements, with additional guidance.
>
> In your view, should the new IPSAS Standard replacing IPSAS 1 permit mixed presentation, where some expense line items are presented by nature, while others are presented by function? Would mixed presentation result in a useful structured summary of those expenses for users of financial statements in your jurisdiction?
>
> Please provide the reasoning behind your view.

PSAB does not support permitting mixed presentation of expenses on the face of the Statement of Financial Performance. In PSAB's view, the new IPSAS Standard should require a consistent basis of expense classification on the face of the statement, either by nature or by function, and should not permit an approach in which some expense line items are presented by nature while others are presented by function.

While we appreciate that flexibility can accommodate diverse reporting environments, mixed presentation poses the following risks:

1. Reduced comparability across entities and jurisdictions. A mixed approach would allow materially different presentations for entities with similar operations, undermining users' ability to compare financial performance across jurisdictions or between similar types of public sector entities. The Consultation Paper itself acknowledges (at paragraph 4.46(b)) that "prohibiting mixed presentation would improve comparability of financial information across entities and jurisdictions, and more effectively respond to initial feedback from public sector constituents to reduce diversity of presentation in practice." PSAB agrees with this observation and considers it to be a strong argument against permitting mixed presentation.
2. Risk of obscuring material information. When some expense line items are classified by nature and others by function within the same statement, users may find it difficult to form a coherent understanding of the entity's financial performance. The structured summary that the Statement of Financial Performance is intended to provide would be compromised if the classification basis shifts between line items. This is inconsistent with the IPSASB's own objective of improving the "communication effectiveness" of financial statements.
3. Challenges for the actual-to-budget comparison. In the Canadian public sector, the statement of operations includes an actual-to-budget comparison, which PSAB considers a fundamental component of the financial accountability cycle. A mixed presentation of expenses could complicate this comparison. The IPSASB should consider this interaction carefully, especially given that IPSAS 24, *Presentation of Budget Information in Financial Statements*, applies to entities that make their approved budgets publicly available.
4. Inconsistency with the role of the primary financial statements. The Consultation Paper, consistent with IFRS 18, proposes that the role of the primary financial statements is to provide useful structured summaries. A mixed classification approach risks producing a statement that is neither a coherent summary by nature nor by function, reducing its utility as a structured summary and pushing users toward the notes for basic comprehension of expenses, which undermines the intended distinction between the roles of primary statements and notes.

PSAB recognizes that there may be times when, displaying information by function, a particular expense (e.g. interest expense) may not be practicable to allocate to a function or program. Only in this circumstance would a mixed model be permittable and it would be helpful to the user if the entity explained why the mixed model is being used.

The Importance of Functional Presentation for Public Sector Accountability

PSAB recognizes that the IPSASB must accommodate a wide range of public sector entities internationally, and that some entities may find a nature-based classification more practical. However, we wish to emphasize that functional or program-based presentation is particularly well-suited to governments for the following reasons:

- Governments and other public sector entities plan, budget, and are held accountable by program and function. This is the lens through which legislators, citizens, and oversight bodies evaluate public spending. A functional display on the face of the statement aligns financial reporting with the accountability framework in which public sector entities operate.

- It provides accountability for the total costs of each major function of the public sector entity. A functional display directly connects financial information to the programs and services for which the entity was established, enabling users to evaluate whether resources were used as intended.
- It allows financial statement readers to compare the costs of each function to its total costs. This enables users to obtain information about the entity's priorities, for example, the proportion of revenue allocated to education compared with health, or to social services compared with infrastructure.

- Functional presentation connects the financial statements to service delivery outcomes. Users of public sector financial statements are interested not only in what types of resources were consumed (nature) but in what those resources were used for (function). This connection to purpose and outcome is a defining feature of public sector financial reporting that distinguishes it from private sector reporting.
- The IPSASB's Conceptual Framework supports this emphasis. Chapter 2 of the IPSASB's Conceptual Framework identifies "financial capacity" and "operational capacity" as key information needs for users of public sector financial statements. Functional presentation on the face of the statement directly serves the operational capacity information need by showing how resources were deployed across functions.

If the IPSASB decides to continue permitting entities to choose between presenting expenses by nature or by function, we encourage the IPSASB to require reciprocal disclosure of the alternative classification in the notes. We note an asymmetry in the Illustrative Exposure Draft: paragraphs 112-113 require entities that classify expenses by function to disclose the nature of expenses included in each function line item, but no equivalent requirement exists for entities that classify expenses by nature to disclose expenses by function. Given the importance of functional information to public sector accountability, including its role in connecting financial performance to programs, services, and budget structures, this gap should be addressed. Requiring disclosure of expenses by function (as appropriate) when nature is presented on the face would ensure that users always have access to both an accountability-oriented and an economic-resource perspective on expenses, regardless of the classification approach selected. This model ensures that both perspectives are always available to users, without the comparability challenges that arise from permitting different entities to select different classification bases.

Additional Observations

Interaction with categorization requirements

PSAB notes that the expense classification question (nature vs. function) interacts with the categorization requirements proposed in Preliminary View 8 (operating, investing, financing, income taxes, and discontinued operations). The IPSASB should ensure that the classification and categorization frameworks work together coherently in the public sector context (if the IPSASB decides to continue with its categorization proposals). In particular, if a functional classification is used within the operating category, guidance should clarify how this interacts with the other categories, many of which are inherently nature-based.

Need for implementation guidance

Regardless of the approach adopted, PSAB encourages the IPSASB to provide implementation guidance or illustrative examples demonstrating how expense classification (by nature, function, or, if retained, mixed) would be applied in practice across different types of public sector entities. This would support consistent application and help preparers make informed judgments about the most appropriate classification for their circumstances. To help we do offer the 5 illustrative financial statements in Section PS 1202 of various public sector entities, with a focus on functional display.

Preliminary View 11—Chapter 5: Statement of Changes in Net Assets/Equity

> The IPSASB's preliminary view is to maintain (1) requirements to present revenue and expense items recognized outside surplus or deficit directly in net assets/equity, on the Statement of Changes in Net Assets/Equity, and (2) requirements related to reclassification adjustments.
>
> Do you agree with the IPSASB's Preliminary View, and are there additional enhancements to these IPSAS 1 requirements the IPSASB should consider (for example, whether to enhance disclosure requirements to help users better understand the nature and composition of material revenue and expense items recognized outside of surplus or deficit)?
>
> If you do not agree, please provide your reasons and clearly explain what you consider should be changed.

We agree with the IPSASB's preliminary view to maintain requirements to present revenue and expense items recognized outside surplus or deficit directly in net assets/equity on the Statement of Changes in Net Assets/Equity, and to maintain requirements related to reclassification adjustments. This approach is conceptually sound and aligns well with the direction taken in the Canadian public sector reporting model under Section PS 1202.[2]

We consider the IPSASB's continued recognition of items outside surplus or deficit directly in net assets/equity to be appropriate for the public sector. The Canadian experience supports this approach, as it:

- allows the surplus or deficit of the period to remain a critical and focused indicator of operating financial performance;
- provides a mechanism for reflecting the economic substance of certain transactions (such as unrealized remeasurements on financial instruments) without distorting the operating results; and
- supports a clear and transparent presentation of all changes in net financial position.

[2] Section PS 1202 includes a Statement of Changes in Net Assets or Net Liabilities that serves a similar purpose to the IPSASB's Statement of Changes in Net Assets/Equity. Under Section PS 1202, all revenues and expenses arising in the period are reflected in this statement in one component or another, providing a transparent and comprehensive view of total changes in net financial position.

Reclassification Adjustments

PSAB, in Section PS 1202, acknowledges that reclassification to a future period's surplus or deficit does not double-count the revenue or expense, it simply moves from one component of net assets or net liabilities to another, with a nil net effect on the net assets or net liabilities indicator (paragraph PS 1202.148)[3]. The IPSASB may want to consider adding this paragraph in its standard that replaces IPSAS 1.

Section PS 1202 also addresses the scenario where reclassification may not occur. Paragraph PS 1202.149[4] provides that if there is no clear and objective basis for identifying the period or amount to reclassify, reclassification will not be required. In such cases, the standard-setter must justify the determination in the relevant standard's Basis for Conclusions. We encourage the IPSASB to adopt a similarly principled approach, ensuring that decisions about reclassification are consistent, transparent, well-documented, and made at the standards level.

Enhanced Disclosure Requirements — A Gap to Address

We note that Preliminary View 11 invites comments on whether the IPSASB should enhance disclosure requirements to help users better understand the nature and composition of material revenue and expense items recognized outside of surplus or deficit. We strongly encourage the IPSASB to pursue such enhancements.

In this regard, Section PS 1202 offers several disclosure features that the IPSASB may wish to consider:

1. **Distinguishing amounts arising in the period from amounts reclassified**: Paragraph PS 1202.156(b)[5] requires the presentation of the various components to distinguish between (i) amounts arising during the period and (ii) amounts reclassified during the period to the statement of operations. This disaggregation provides users with valuable information about the drivers of change in each component.

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[3] Paragraph PS 1202.148 states "Initially recognizing a revenue or expense temporarily outside of surplus or deficit and then subsequently reclassifying it to the surplus or deficit of a future period does not double-count the revenue or expense. The revenue or expense is simply moving from one component of net assets or net liabilities to another. The net effect on the net assets or net liabilities indicator is nil."

[4] Paragraph PS 1202.149 states "Other standards may determine that, subsequent to initial recognition, if there is no clear and objective basis for identifying: (a) the period in which the reclassification of the revenue or expense should occur; and/or (b) the amount that should be reclassified, reclassifying a revenue or expense from accumulated remeasurement gains or losses or accumulated other to a future period's surplus or deficit will not occur."

[5] Paragraph PS 1202.156(b) states "The presentation of the accumulated remeasurement gains and losses component on the statement of changes in net assets or net liabilities should include:…(b) remeasurement gains and losses during the period, distinguishing between: (i) amounts arising during the period; and (ii) amounts reclassified during the period to the statement of operations…"

2. **Disclosure of permanently excluded items**: Paragraph PS 1202.150[6] requires that if revenue or expense is permanently reported outside of surplus or deficit, this fact must be reported on the statement of changes in net assets or net liabilities. Disclosure in the notes must indicate how much of the opening and closing balance of each component is permanently reported outside of surplus or deficit. This transparency is critical for user understanding and accountability.

Additional Suggestions

We offer the following additional observations for the IPSASB's consideration:

- **Flexibility for future use**: The Canadian model's inclusion of an "accumulated other" component provides PSAB with a principled mechanism to address emerging issues, such as the potential recognition of natural capital, heritage resources, or endowments, without distorting surplus or deficit. The Basis for Conclusions for Section PS 1202 explains that this feature was designed to make the reporting model sustainable and give the standard-setter the means to improve accountability as new issues arise. While the IPSASB may not choose to introduce an equivalent component at this time, we encourage the IPSASB to consider whether its framework provides sufficient flexibility to address transactions and events that may not fit neatly within the existing components of net assets/equity.
- **Restricting recognition outside surplus or deficit to standards-level decisions**: Section PS 1202 is explicit that only PSAB, through its due process, may designate transactions and other events for recognition directly in a component of net assets or net liabilities (paragraphs PS 1202.147, .159, .161)[7]. This restriction is essential to prevent misuse and ensure consistent application. We encourage the IPSASB to reinforce a similar principle, making clear that the recognition of items outside surplus or deficit is a decision reserved for the standard-setter.
- **Supplementary statements or schedules for complex reconciliations**: Section PS 1202 recognizes that if the statement of changes in net assets or net liabilities becomes too summarized or too complicated, the changes in different components may need to be supported

[6] Paragraph PS 1202.150 states "If revenue or expense is permanently reported outside of surplus or deficit, the fact that it is permanent should be reported on the statement of changes in net assets or net liabilities. Disclosure in the notes or schedules would indicate how much of the opening and closing balance of each component is permanently reported outside of surplus or deficit."

[7] Paragraph PS 1202.147 states "Decisions to recognize a revenue or expense arising in a period outside that period's surplus or deficit are made only by PSAB at the standards level. If PSAB decides that a revenue or expense is initially recognized outside of a period's surplus or deficit, it would then determine the following: (a) the component of net assets or net liabilities the revenue or expense would be initially recognized in (i.e., accumulated remeasurement gains and losses or, if applicable, accumulated other); and (b) when, or if, it would be subsequently reclassified to a future period's surplus or deficit. Such decisions would be based on providing better accountability information to the user and would be explained and documented in the applicable standard's basis for conclusions."

by detail in separate statements or schedules (paragraph PS 1202.146)[8]. We encourage the IPSASB to consider providing similar guidance to ensure understandability is maintained as the volume and complexity of items recognized outside surplus or deficit may grow over time.

Preliminary View 12—Chapter 5: Statement of Changes in Net Assets/Equity

> The IPSASB's preliminary view is to maintain the presentation requirements regarding the Statement of Changes in Net Assets/Equity, and revise the reconciliation requirement to require the reconciliation be displayed on the face of the Statement.
>
> Do you agree with the IPSASB's Preliminary View?
>
> If not, please provide your reasons and clearly explain what you consider should be changed.

PSAB agrees with Preliminary View 12. Maintaining the presentation requirements regarding the Statement of Changes in Net Assets/Equity and revising the reconciliation requirement so that the reconciliation is displayed on the face of the statement is a sound approach that we support. This direction is consistent with the approach taken in the Canadian public sector under Section PS 1202, *Financial Statement Presentation*, which requires the statement of changes in net assets or net liabilities to show a reconciliation between the accumulated balance at the beginning and end of the period for each component of net assets or net liabilities, rather than permitting it to be relegated to the notes. This approach strengthens the role of the primary financial statement as a structured summary, consistent with the principle that primary financial statements should provide useful overviews. We therefore consider this approach as an improvement over the current IPSAS 1 flexibility that permits the reconciliation to be presented either on the face of the statement or in the notes.

Format of the Reconciliation: A Consideration for the IPSASB

While we agree with the requirement to display the reconciliation on the face of the statement, we wish to draw the IPSASB's attention to the format of the reconciliation.

The IPSASB's Consultation Paper and IPSAS 1 present the Statement of Changes in Net Assets/Equity using a columnar (matrix) format, in which each component of net assets/equity is a column and each type of change (surplus/deficit, items recognized directly in net assets/equity, ownership contributions/distributions, etc.) is a row. Section PS 1202 uses a different approach, a vertical (sequential) reconciliation format, in which each component of net assets or net liabilities is reconciled individually, one after another, from opening balance through changes to closing balance. This vertical format offers certain advantages that the IPSASB may wish to consider:

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[8] Paragraph PS 1202.146 states "If the statement of changes in net assets or net liabilities is too summarized or becomes too complicated, then the changes in different components of net assets or net liabilities would need to be supported by detail in separate statements or schedules. Understandability for accountability purposes would be a key factor for making this determination."

1. **Greater clarity for each component.** By reconciling each component individually, users can more easily follow the specific items that drive changes in each component, for example, distinguishing between amounts arising during the period and amounts reclassified to surplus or deficit.
2. **Better scalability.** As the number and complexity of items recognized outside surplus or deficit may grow over time, a vertical format is more readily scalable without becoming visually congested.
3. **Improved year-over-year comparability.** Presenting the information in a vertical format can make it easier to view the two years side by side and compare movements across periods, an advantage that is not as readily achieved in the illustrated format.

The following is an example of a columnar format for the Statement of Changes in Net Assets/Equity.

	20X6	**20X5**
Contributed capital		
Contributed capital, beginning of year	X	X
Contributions by owners during the period	X	X
Distributions to owners during the period	(X)	(X)
Contributed capital, end of year	**X**	**X**
Accumulated surplus or deficit		
Accumulated surplus (deficit), beginning of year	X	X
Surplus (deficit) for the period	X	X
Effects of changes in accounting policies / corrections of errors	X	—
Accumulated surplus (deficit), end of year	**X**	**X**
Reserves		
Accumulated reserves, beginning of year	X	X
Revenue and expense recognized directly in net assets/equity:		

	20X6	**20X5**
[type of revenue/expense]	X	X
Less: Amounts reclassified to surplus or deficit	(X)	(X)
Effects of changes in accounting policies / corrections of errors	X	—
Accumulated reserves, end of year	**X**	**X**
Non-controlling interest		
Non-controlling interest, beginning of year	X	X
Share of surplus (deficit) for the period	X	X
Share of revenue and expense recognized directly in net assets/equity	X	X
Share of the effects of changes in accounting policies / corrections of errors	X	—
Non-controlling interest, end of year	**X**	**X**
Total net assets/equity	**X**	**X**

We are not suggesting that the IPSASB should mandate a particular format, this would be inconsistent with the principles-based approach. However, we encourage the IPSASB to provide illustrative examples of both formats (columnar and vertical) in the new standard or accompanying guidance, so that entities can select the format that best serves their users' needs and the complexity of their reporting circumstances.

Additional Observations

Retroactive application of accounting changes: We note that the IPSASB's Preliminary View 3 proposes to add a requirement for an additional Statement of Financial Position when restatements or reclassifications have a material effect. We encourage the IPSASB to ensure that the reconciliation requirements on the Statement of Changes in Net Assets/Equity are consistent with and complementary to this additional comparative information requirement, so that users can clearly trace the effects of restatements across all primary financial statements.

Requiring Display of Components on the Statement of Financial Position: Paragraph 126 of the Illustrative Exposure Draft states that “An entity shall display on the face of the statement of financial position or disclose in the notes the amounts for the components that make up the entity's net assets/equity…" PSAB encourages the IPSASB to consider requiring the various components of net assets/equity to be displayed on the face of the Statement of Financial Position. In developing Section PS 1202, PSAB found this presentation helpful for two key reasons. First, it reinforces the linkage between the Statement of Financial Position and the Statement of Changes in Net Assets or Net Liabilities. Second, it creates a transparent framework that allows entities to provide additional, entity-specific information about individual components, such as restrictions on accumulated surplus, the portion of accumulated surplus invested in tangible capital assets, or the relationship between accumulated surplus/deficit and funds and reserves, in the notes, without obscuring the primary statements. Overall, presenting the components on the face of the statement of financial position provides users with a clear snapshot of the nature of net assets/equity, which improves understandability and supports public sector accountability.

Preliminary View 13—Chapter 5: Statement of Changes in Net Assets/Equity

> The IPSASB's preliminary view is that guidance based on IFRIC 17 *Distribution of Non-cash Assets to Owners* should not be incorporated into the IPSAS Standards, as the relevant transactions are not prevalent in the international public sector.
>
> Do you agree with the IPSASB's Preliminary View?
>
> If not, please provide your reasons and clearly explain what you consider should be changed.

PSAB agrees with Preliminary View 13. The IPSASB's conclusion that guidance based on IFRIC 17, *Distribution of Non-cash Assets to Owners*, should not be incorporated into IPSAS Standards is appropriate and well-reasoned.

Preliminary View 14—Chapter 6: Disclosure of Information in the Notes

> The IPSASB's preliminary view is to retain existing IPSAS 1 requirements for the disclosure of information in the notes to the financial statements, and incorporate the IASB's amendments to IAS 1 (as presented in paragraphs 6.7 and 6.12) which would align with equivalent IFRS Accounting Standards guidance.
>
> Do you agree with the IPSASB's Preliminary View?
>
> If not, please provide your reasons and clearly explain what you consider should be changed.

PSAB generally agrees with Preliminary View 14. Retaining the existing IPSAS 1 requirements for the disclosure of information in the notes and incorporating the IASB's 2021 amendments to IAS 1, particularly the shift to focusing on material accounting policy information and the reframing of disclosure requirements in the context of materiality and professional judgment, is a sound approach that we support.

Additional Observations

- **Notes as integral, but not a substitute.** Paragraph PS 1202.240 states that notes and schedules should not be used as a substitute for the proper recognition and/or measurement of an item, transaction or other event. This is an important principle that the IPSASB may want to consider including in the new standard.
- **Interaction with the Making Materiality Judgments project.** The Consultation Paper notes that the proposed amendments would be consistent with the IPSASB's current narrow-scope Making Materiality Judgments project. We encourage the IPSASB to ensure that the timing and content of both projects are coordinated, so that preparers have a comprehensive and coherent framework for applying materiality to both the face of the financial statements and the notes. Given that the materiality practice statement relies heavily on IPSAS 1 and is expected to be completed prior to the issuance of the new IPSAS standard on the presentation of financial statements, it will be necessary to make consequential amendments to the practice statement during the Presentation of Financial Statements project.

Preliminary View 15—Chapter 6: Disclosure of Information in the Notes

The IPSASB's preliminary view is to not incorporate the IFRS 18 definition and disclosure requirements for management-defined performance measures (MPMs) into the IPSAS Standards.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed.

PSAB agrees with Preliminary View 15. The IPSASB's conclusion that the IFRS 18 definition and disclosure requirements for management-defined performance measures (MPMs) should not be incorporated into IPSAS Standards is well-reasoned.

In our view, incorporating the IFRS 18 MPM framework would address a problem that does not exist, or, at least, does not exist in the same form in the public sector. The IASB developed the MPM requirements in response to concerns about transparency and consistency in how alternative performance measures are calculated and communicated. Those concerns are less pronounced in the public sector context, as researched by the IPSASB.

While we agree with Preliminary View 15, we encourage the IPSASB to monitor developments post-implementation. We support IPSASB's research on this matter, as it reflects an evidence-based approach. PSAB encourages the IPSASB to continue monitoring developments in this area, particularly as: (a) more jurisdictions adopt accrual-based IPSAS Standards and may begin communicating more sophisticated performance measures; and (b) the increasing focus on sustainability reporting may generate new types of financial-non-financial hybrid performance measures that do not fit neatly within the current IFRS 18 MPM definition but may warrant transparency requirements.

Preliminary View 16—Chapter 6: Disclosure of Information in the Notes

> The IPSASB's preliminary view is to not include an amended IFRS 18 MPM concept for application in the public sector (thereby not introducing an amended version of the IFRS 18 MPM definition or disclosure requirements into the IPSAS Standards).
>
> Do you agree with the IPSASB's Preliminary View?
>
> If not, please:
>
> a) Provide your reasons, and provide specific examples of alternative performance measures that are defined by management and provided in public communications outside the financial statements; and
>
> b) Clearly explain why there is a need for greater transparency of those measures that warrants new guidance in the IPSAS Standards.

PSAB agrees with Preliminary View 16. The IPSASB's conclusion that an amended version of the IFRS 18 management-defined performance measures (MPM) concept should not be developed for application in the public sector is appropriate and well supported by the evidence considered in its deliberations. We also support the IPSASB's decision to issue this Consultation Paper and seek input on this topic, as it helps ensure an informed conclusion that reflects public sector perspectives. We agree that introducing an adapted MPM framework into IPSAS Standards is neither warranted nor likely to deliver benefits proportionate to the costs and complexity it would introduce.

The IPSASB's rationale for Preliminary View 16, as set out in paragraphs 6.28–6.33 of the Consultation Paper, resonates strongly with the Canadian public sector experience. In particular, we agree with the observation in paragraph 6.29 that public sector constituents have not raised concerns comparable to those in the private sector regarding the transparency or quality of alternative performance measures communicated outside the financial statements. As noted in paragraph 6.29(b), such measures in the public sector are typically entity- or jurisdiction-specific and closely linked to service delivery objectives and the jurisdiction in which an entity operates. Any adapted MPM framework would need to be broad enough to accommodate this diversity while being sufficiently specific to support meaningful disclosure requirements, a balance that would be difficult to achieve at an international level. Moreover, for some entities, introducing disclosure requirements for adapted MPMs could increase reporting burden without a demonstrated user need.

We encourage the IPSASB to present its rationale for Preliminary Views 15 and 16 clearly and cohesively in the Basis for Conclusions of the new standard, so that the decision is well documented and can be revisited with appropriate context if circumstances change.

PSAB commends the IPSASB for undertaking a thorough assessment of the applicability of the MPM concept to the public sector, rather than adopting or adapting the IFRS 18 requirements without analysis. This evidence-based approach, considering whether public sector constituents have raised similar concerns, whether alternative performance measures in the public sector share the same characteristics as private sector non-GAAP measures, and whether existing guidance is sufficient, is precisely the type of rigorous analysis that should underpin decisions about whether to align with, or depart from, IFRS Accounting Standards.