PSAB Public Sector Accounting Board

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PSAB and IPSASB: Comparing Conceptual Frameworks

Introduction

The Public Sector Accounting Board's (PSAB) Conceptual Framework for Financial Reporting in the Public Sector (the "Conceptual Framework") is the guide for setting future Canadian Public Sector Accounting Standards (PSAS).

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

PSAB's "Criteria for modifying and reviewing IPSAS Principles" states that PSAB will amend an IPSAS principle in developing a Canadian standard if:

- it is contrary to the Board's Conceptual Framework; or
- the Board finds the IPSAS principle inappropriate for application in Canada based on the Canadian public interest.

This document compares and summarizes the differences between PSAB's and the International Public Sector Accounting Board's (IPSASB) Conceptual Frameworks.

The differences arose because PSAB followed its due process in developing its new Conceptual Framework. After consulting interested and affected parties, the Board debated the differences and deemed them appropriate.

This document was prepared by staff. It is not meant to be a complete overview nor an identification of all the differences.

Summary Comparison

The Conceptual Framework comparison is based on the key concepts in:

- PSAB's Conceptual Framework, found in the CPA Canada Public Sector Accounting (PSA) Handbook; and
- the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, found in the Handbook of International Public Sector Accounting Pronouncements, 2022 Edition.

The following table identifies the differences between the two conceptual frameworks. The main difference is the measurement attribute: PSAB specifies a default measurement attribute. The IPSASB does not.

The comparison classifies the differences as follows:

Similar/Consistent	The concepts are similar.
Minor Differences Noted	The differences have no significant impact for setting future standards.
Difference Noted	The concepts are different and may have a significant impact on setting future standards.

Explanations for these classifications follow the table.

Subject	Comparison
Characteristics of public sector entities	Similar/Consistent
Objective of financial reporting	Similar/Consistent
Primary users of financial reporting	Minor Differences Noted
Information needs of users	Similar/Consistent
Role of financial statements	Similar/Consistent
Financial statement foundations[1]	Similar/Consistent
Financial statement objectives	Minor Differences Noted
Qualitative characteristics	Similar/Consistent
Considerations/constraints	Minor Differences Noted
Elements of financial statements	Minor Differences Noted
Asset and liability definitions	Minor Differences Noted
Revenue and expense definitions	Minor Differences Noted
Recognition criteria	Minor Differences Noted
Derecognition	Similar/Consistent
Measurement attribute	Difference Noted
Presentation definition	Similar/Consistent
Presentation objective	Similar/Consistent

[1] Although the IPSASB does not have a separate section in its conceptual framework articulating the financial statement foundations, the financial statement foundations PSAB identified appear throughout the IPSASB's Handbook of International Public Sector Accounting Pronouncements.

Comparison and Implications of Differences Noted

Primary users of financial reporting

Public Sector Accounting Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
The public and its elected or appointed representatives are the primary users of public sector financial reports. (Paragraph 3.08 of the Conceptual Framework)	…the primary users of [general purpose financial reports] GPFRs are service recipients and their representatives and resource providers and their representatives. (Paragraph 2.4 of the Conceptual Framework)

What does this difference mean for setting future PSAS in Canada?

The primary users identified in IPSASB's Conceptual Framework extend beyond the general public and its elected or appointed representatives.

The practical implications of this difference may not be significant, but different information could be included in financial statements prepared under IPSAS to address the needs of these additional users.

PSAB would need to determine if this information provides additional accountability to the primary users identified in the Canadian Conceptual Framework and, as a result, should be part of a future standard.

Financial statement objectives

In Chapter 6 of the Conceptual Framework, PSAB identified six financial statement objectives:

1. determining the scope of financial statements;
2. reporting financial position;
3. reporting changes in financial position;
4. comparing actual performance to that projected in the budget;
5. disclosing non-compliance with financial authorities; and
6. disclosing risks and uncertainties.

The IPSASB does not include a section on financial statement objectives in its Conceptual Framework.

What does this difference mean for setting future PSAS in Canada?

Articulating the financial statement objectives within a conceptual framework is unique to PSAB and has roots in how the Public Sector Accounting and Auditing Committee (PSAAC) originally built consensus on what financial statements should report.[2]

PSAB believes there is merit in articulating the financial statement objectives. They flow from and are consistent with the broad accountabilities for public sector financial reporting set out in Chapter 3 of the Conceptual Framework. They provide the basis for determining the principles for the reporting model and the focus of each statement, or “indicators” to be reported on each statement.

The impact of this difference is that PSAB's Conceptual Framework provides the conceptual foundation for the Board’s reporting model. In contrast, the IPSASB aligns its reporting model with:

- Government Finance Statistics (GFS);[3]
- IFRS® Accounting Standards as appropriate for the public sector; and
- the IPSASB Conceptual Framework.

As a result, when looking at an IPSAS to use, PSAB would also consider whether any presentation principles in the IPSAS require amendment to be consistent with the Board’s reporting model.

[2] In 1981, the Institute of Chartered Accountants of Canada established PSAAC after consulting with interested and affected parties from federal, provincial, and territorial governments, who saw the need for a comparable and consistent approach to financial reporting by Canadian governments. In 1993, PSAAC was renamed Public Sector Accounting and Auditing Board (PSAAB), a standard-setting board. In 1999, PSAAB was renamed PSAB when responsibility for public sector auditing standards was transferred to the Auditing and Assurance Standards Board.

[3] The overarching standards for macroeconomic statistics are set out in the System of National Accounts 2008 (2008 SNA). International statistical standards (ISS) are harmonized with the 2008 SNA to the extent possible, while remaining consistent with their own specific objectives. ISS include the European System of Accounts 2010 (2010 ESA), International Monetary Fund’s Government Finance Statistics Manual 2014 (2014 GFSM), and Balance of Payments and International Investment Position Manual (Sixth Edition).

Considerations/constraints

Public Sector Accounting Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
The considerations to take into account in striving to achieve a balance among the qualitative characteristics include: • benefit versus cost; • materiality; and • prudence. (Paragraph 7.31 of the Conceptual Framework)	Pervasive constraints on information included in GPFRs are materiality, cost-benefit and achieving an appropriate balance between the characteristics. (Paragraph 3.3 of the Conceptual Framework)

Considerations are what an entity takes into account when determining the information to include in financial statements. The IPSASB calls these “constraints” in its Conceptual Framework.

PSAB introduced prudence as a consideration as it is inherent when applying professional judgment – required when considering the accounting for transactions and other events. The IPSASB’s constraints do not currently include prudence. However, the IPSASB has included the notion of “prudence” within the context of faithful representation. Both boards define prudence in a similar way as “the exercise of caution when making judgments under conditions of uncertainty.”

The IPSASB’s Conceptual Framework includes achieving a balance between the qualitative characteristics as a constraint. In contrast, PSAB’s Conceptual Framework identifies the considerations that need to be taken into account to achieve a balance among the qualitative characteristics.

What do these differences mean for setting future PSAS in Canada?

These differences are not considered significant in intent or substance. As a result, they are not expected to impact the setting of future standards.

Elements of financial statements

Public Sector Accounting Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
For financial statements, the elements are assets, liabilities, revenues and expenses. (Paragraph 8.06 of the Conceptual Framework)	The elements … are: • assets; • liabilities; • revenue; • expense; • ownership contributions; and • ownership distributions. (Paragraph 5.5 of the Conceptual Framework) [Other resources and other obligations are categories in addition to the elements, to be reported on the statement of financial position. See paragraphs 5.4, 5.27 and 5.28 of the IPSASB's Conceptual Framework.]

Ownership contributions and ownership distributions

PSAB considered including ownership contributions and ownership distributions, but concluded that:

- Differentiating between ownership contributions and government transfers for many public sector entities was problematic.
- Ownership contributions and ownership distributions are rare in the Canadian public sector and including them in the Conceptual Framework would give them undue prominence.
- Ownership contributions and ownership distributions represent changes in a component of net financial position. As a result, defining a component of net assets or net liabilities as an element contradicts the idea that elements are the most basic building blocks of financial statements. Elements may have subcategories or subclassifications, but elements cannot be subcategories themselves.

What does this difference mean for setting future PSAS in Canada?

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

Other resources and other obligations

In paragraph 5.4 of its Conceptual Framework, the IPSASB states:

> In some circumstances, to ensure that the financial statements provide information that is useful for a meaningful assessment of the financial performance and financial position of an entity, recognition of economic phenomena that are not captured by the elements as defined in this Chapter may be necessary. Consequently, the identification of the elements in this Chapter does not preclude IPSASs from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of an element identified in this Chapter (hereafter referred to as "other resources" or "other obligations") when necessary to better achieve the objectives of financial reporting.

The IPSASB's Conceptual Framework (paragraph 5.28) also states: "Net financial position is the difference between assets and liabilities after adding other resources and deducting other obligations recognized in the statement of financial position."

PSAB chose not to adopt these categories. The Board concluded the understandability imperative that flows from the accountability objective in the Canadian Conceptual Framework supports an approach that reports financial position and periodic financial performance in terms that the public already understands; that is, assets, liabilities and changes in them. However, the Board is incorporating the concept of direct recognition of revenue or expense in components of net assets or net liabilities, as indicated in paragraph 6.25 of the Conceptual Framework. PSAB concluded this approach responds to the same issues that prompted the IPSASB to create the "other resources" and "other obligations" categories; the need for tools to address complex accounting issues.

What does this difference mean for setting future PSAS in Canada?

Although the IPSASB identified the possibility of other resources and other obligations that do not meet the asset and liability definitions in its conceptual framework, the IPSASB has yet to identify any transactions or other events that would be recognized in these categories.

If the IPSASB decides to use "other resources" and "other obligations" in a standard that PSAB wishes to use, PSAB will need to determine an alternative accounting treatment that meets the financial reporting objective of providing accountability information. This alternative accounting treatment may or may not lead to the same impact on the net financial position indicator. For example, PSAB may consider using the accumulated-other component of the net assets or net liabilities. The accumulated-other component may be used to recognize items, transactions or other events that PSAB feels should be recognized outside of surplus or deficit when they arise, to better serve the accountability objective.

More information on the accumulated-other component of net assets or net liabilities is found in Section PS 1202, *Financial Statement Presentation* (issued October 2023).

Asset and liability definitions[4]

Public Sector Accounting Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
An asset is a present economic resource controlled by an entity as a result of a past event(s) and from which future economic benefit is expected to be obtained. (Paragraph 8.08 of the Conceptual Framework)	An asset is: A resource presently controlled by the entity as a result of a past event. (Paragraph 5.6 of the Conceptual Framework)
A liability is a present economic obligation of an entity to others as a result of a past event(s), the settlement of which is expected to result in a future sacrifice of economic benefit. (Paragraph 8.15 of the Conceptual Framework)	A liability is: A present obligation of the entity for an outflow of resources that results from a past event. (Paragraph 5.14 of the Conceptual Framework)

The key difference between PSAB's asset and liability definitions and the IPSASB's is that PSAB's definitions include "expectation" of receipt or sacrifice of future economic benefits. This same difference exists with the recognition criteria of the two standard setters (see also "Recognition criteria").

Based on responses to Consultation Paper 3, "Conceptual Framework Fundamentals and the Reporting Model," PSAB decided to keep "expectation" in the definitions. Removing "expectation", as proposed in Consultation Paper 3, would eliminate the redundancy with the general recognition criteria. Although theoretically correct, it could add a workload burden to preparers with little or no increase in the accountability provided by financial statements.

What does this difference mean for setting future PSAS in Canada?

The theoretical implication of this difference is that applying the IPSASB's definitions and recognition criteria may result in more items meeting the definition of an asset or a liability and possibly more assets and liabilities being recognized. However, PSAB is of the view that, in most cases, PSAB and IPSASB will recognize similar assets and liabilities, as this is the case currently. PSAB finds that when the element definitions, the recognition criteria, and the measurement uncertainty considerations are taken into account, PSAS and IPSAS will end up in about the same place. This is because, holistically, similar information is considered in determining the item to be recognized and at what amount it is measured. While the initial list of possible assets and liabilities under IPSAS may be longer than under PSAS, once the recognition criteria

[4] The IPSASB's conceptual framework includes guidance related to the asset and liability definitions. In the PSA Handbook, this guidance is in Section PS 3200, *Liabilities*, and Section PS 3210, *Assets*. This document only compares the concepts provided in PSAB's Conceptual Framework.

and measurement principles are implemented, there should be no significant differences between the assets and liabilities recognized under PSAS and IPSAS.

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

Revenue and expense definitions

Public Sector Accounting Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
Revenue, including a gain, is an increase in assets or decrease in liabilities in the accounting period that results in an increase in net assets or a decrease in net liabilities. (Paragraph 8.23 of the Conceptual Framework)	Revenue is: Increases in the net financial position of the entity, other than increases arising from ownership contributions. (Paragraph 5.29 of the Conceptual Framework)
An expense, including a loss, is a decrease in assets or increase in liabilities in the accounting period that results in a decrease in net assets or an increase in net liabilities. (Paragraph 8.24 of the Conceptual Framework)	Expense is: Decreases in the net financial position of the entity, other than decreases arising from ownership distributions. (Paragraph 5.30 of the Conceptual Framework)

The IPSASB's revenue and expense definitions only refer to increases or decreases in "net financial position." This is because there is potential for net financial position under IPSAS to comprise more than assets and liabilities (see "Other resources and other obligations"). These categories of financial position do not exist in PSAB's Conceptual Framework. But they have not yet been used by the IPSASB.

Further, for added precision, PSAB thought that the revenue and expense definitions should also refer to changes in assets and liabilities that result in changes in net assets or net liabilities. This reference is not included in the IPSASB definitions.

What do these differences mean for setting future PSAS in Canada?

It is not expected that these differences will have an impact on setting future standards.

Recognition criteria

Public Sector Accounting Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
An item, transaction or other event is recognized in the financial statements when: (a) the item, transaction or other event meets the definition of an element; (b) it is expected that the related future economic benefits related to the item will be obtained or sacrificed; and (c) the item, transaction or other event can be measured in a way that satisfies the qualitative characteristics of information and takes into account the related considerations as noted in Chapter 7. (Paragraph 9.05 of the Conceptual Framework)	The recognition criteria are that: • An item satisfies the definition of an element; and • Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs. (Paragraph 6.2 of the Conceptual Framework)

Consistent with its asset and liability definitions, PSAB's general recognition criteria include "expectation" of receipt or sacrifice of future economic benefits. The IPSASB's recognition criteria (and asset and liability definitions) do not.

The IPSASB concluded that its approach (compared to the threshold approach) is more likely to result in the recognition of information that satisfies the qualitative characteristics. While their recognition criteria do not include a recognition threshold, the IPSASB's Conceptual Framework does discuss uncertainty in recognition. In the recognition chapter of its Conceptual Framework, paragraph 6.4 states:

> Recognition involves an assessment of uncertainty related to the existence and measurement of the element. The conditions that give rise to uncertainty, if any, can change. Therefore, it is important that uncertainty is assessed at each reporting date.

The Basis for Conclusions for Chapter 6 of the IPSASB's Conceptual Framework also discusses the relationship of uncertainty to both recognition and the element definitions.

PSAB believes that the expectation threshold should be retained because:

- it appears to be working well in the public sector in Canada; and
- there is no compelling need or argument to change it.

What does this difference mean for setting future PSAS in Canada?

The implication of this difference is that applying the IPSASB's definitions and recognition criteria may result in more items meeting the definition of an asset or a liability and possibly more assets and liabilities being recognized. However, PSAB is of the view that, in most cases, PSAB and IPSASB will recognize similar assets and liabilities as is currently the case. When the element definitions, the recognition criteria and the measurement uncertainty considerations are taken into account, PSAB's assessment is that PSAS and IPSAS will end up in about the same place as, holistically, similar information is taken into account in determining the item to be recognized and at what amount it is measured.

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

Measurement attribute

Public Sector Accounting Handbook	Handbook of International Public Sector Accounting Pronouncements, Volume 1
Financial statements are prepared primarily by reflecting assets, liabilities, transactions and other events at their historical cost unless PSAB determines that another measurement attribute better serves the accountability objective. (Paragraph 9.35 of the Conceptual Framework)	It is not possible to identify a single measurement basis that best meets the measurement objective at a Conceptual Framework level. Therefore, the Conceptual Framework does not propose a single measurement basis (or combination of bases) for all transactions, events and conditions. It provides guidance on the selection of a measurement basis for assets and liabilities in order to meet the measurement objective. (Paragraph 7.5 of the Conceptual Framework)

What does this difference mean for setting future PSAS in Canada?

The difference in the measurement approach may lead to differences in the future when developing standards. PSAB would need to determine whether a measurement attribute in an IPSAS that PSAB uses meets the accountability objective. For now, although the measurement approach of each standard setter is different, a review of the various IPSAS and PSAS reveals that many similar transactions can be accounted for using the same measurement attributes (e.g., tangible capital assets can be recorded at cost, financial instruments are recorded at fair value). However, the fair value measurement attribute is used more in IPSAS than in PSAS.

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