PSAB Public Sector Accounting Board

Detailed Amendments Proposed in the Exposure Draft, “Consequential Amendments Arising from the Proposed Conceptual Framework”

January 2021

Introduction

The purpose of this document is to provide the specific details of all of the proposed Public Sector Accounting (PSA) Handbook amendments described in the Exposure Draft, "Consequential Amendments Arising from the Proposed Conceptual Framework." That Exposure Draft is a consolidated version of the amendments detailed in this document.

Responses to that Exposure Draft may refer to the details in this document if such reference would help articulate any concerns with or suggestions for improving the Exposure Draft proposals.

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CONSEQUENTIAL AMENDMENTS ARISING FROM THE PROPOSED CONCEPTUAL FRAMEWORK

The CPA Canada Public Sector Accounting (PSA) Handbook would be amended, subject to comments, as proposed in this document and outlined in the Exposure Draft, "Consequential Amendments Arising from the Proposed Conceptual Framework." Additional text is denoted by underlining and deleted text by strikethrough.

Withdrawal of the existing conceptual framework

FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, would be withdrawn from the PSA Handbook and replaced with the proposed Conceptual Framework.

Amending references to the existing conceptual framework in the PSA Handbook

As a result of withdrawing Section PS 1000, the references to the Section will be replaced with specific chapter references or general references to the proposed Conceptual Framework in the following Sections:

- INTRODUCTION TO PUBLIC SECTOR ACCOUNTING STANDARDS

.20 Determining the most appropiate standards for other government organizations requires the application of professional judgment. Factors to consider in assessing users' needs, in addition to those outlined in Chapter 3 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000,~~ include, but are not limited to, whether an organization:

(a) has issued, or is the process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market (for example, a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(b) holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses;

(c) has commerical-type operations and substantially derives its revenue from these activities; and

(d) receives limited government assistance on an ongoing basis.

- GENERALLY ACCEPTED ACOUNTING PRINCIPLES, Section PS 1150

.05 *When the primary sources of GAAP do not deal with the accounting and reporting in financial statements of transactions or events encountered by the public sector reporting entity, or additional guidance is needed to apply a primary source to specific circumstances, the selection of an appropriate accounting policy requires the exercise of professional judgment. In these circumstances, a public sector reporting entity should adopt accounting policies and disclosures that are consistent with:*

(a) the primary sources of GAAP; and

(b) the application of the concepts described in the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~. [APRIL 2005 *]

Footnote: *Editorial change — February 2007 and Month 2022.

- ACCOUNTING CHANGES, Section PS 2100

Paragraph PS 2120.05, note 1: Paragraphs 7.24-7.26 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, paragraphs PS 1000.24 and.30~~, provides ~~-~~reasons, such as consistency and comparability, to support the disclosure of reclassifications of financial statement items.

- FIRST-TIME ADOPTION, Section PS 2125

.11 ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, indicates the accounting requirements of an acquisition by a government organization when applying the purchase method. A first-time adopter need not comply with those requirements for an acquisition that was incurred prior to the date of transition to Public Sector Accounting Standards, with the exception of paragraph PS 2510.23.
If a first-time adopter uses this exemption, the purchase method in Section PS 2510 is applied to acquisitions subsequent to the date of transition to Public Sector Accounting Standards. The first-time adopter excludes from its opening statement of financial position any item recognized under previous financial reporting

standards that does not qualify for recognition as an asset or liability under Chapters 8-9 of the Conceptual Framework ~~Public Sector Accounting Standards including FINANCIAL STATEMENT CONCEPTS, Section PS 1000.~~ However, if a first-time adopter restates any business combination to comply with Section PS 2510, it restates all subsequent business combinations from the date of the business combination.

- SEGMENT DISCLOSURES, Section PS 2700

.09 In indentifying segments, preparers of financial statements will consider the definition of a segment and other factors, including:

…

(e) the qualitative characteristics of financial reporting as set out in Chapter 7 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~;

- LIABILITIES, Section PS 3200

.01 This Section:

(a) provides guidance for applying the definition of liabilities set out in Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~, and establishes general recognition and disclosure standards for liabilites; but

(b) does not include standards for recognition and disclosure of specific types of liabilities, which are dealt with in individual CPA Canada Public Sector Accounting Handbook Sections.

- ASSETS, Section PS 3210 .01

This Section:

(a) provides guidance for applying the definition of assets set out in Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~, and establishes general disclosure standards for assets; but

(b) does not include standards for recognition and disclosure of specific types of assets, which are dealt with in other Handbook Sections.

- LIABILITY FOR CONTAMINATED SITES, Section PS 3260

.03 This Section provides guidance for applying the definition of liabilities set out in Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~, and the general recognition and disclosure standards in LIABILITIES, Section PS 3200, in accounting for and reporting a liability for contaminated sites. It may be useful to read this Section in conjuction with ASSET RETIREMENT OBLIGATIONS, Section PS 3280, CONTINGENT LIABILITIES, Section PS 3300, and CONTRACTUAL OBLIGATIONS, Section PS 3390. Nothing in this Section overrides any standard in another Section of the CPA Canada Public Sector Accounting Handbook.

…

.35 If a liability is not recognized, it may be appropriate to provide information about the existence, nature and extent of the present obligation in notes to the financial statements. For futher guidance, refer to Chapter 9 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~, LIABILITIES, Section PS 3200, and CONTINGENT LIABILITIES, Section PS 3300.

…

B13 Therefore, a present obligation to remediate a contaminated site may have all the essential characteristics of a liability, but still not be recognized as a liability because it does not meet all the recognition criteria. That is, in this case, it is not expected that future economic benefits will be given up. The determination of whether economic benefits will be given up or not will require the application of professional judgment considering the specific circumstances. If a present obligation is not recognized, it may be appropriate to provide information about it in notes to the financial statements. For further guidance, refer to Chapter 9 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000,~~ and LIABILITIES, Section PS 3200.

- ASSET RETIREMENT OBLIGATIONS, Section PS 3280

.02 This Section provides guidance for applying the definition of liabilities set out in Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~, and the general recongnition and disclosure standards in LIABILITIES, Section PS 3200, in accounting for and reporting a liability for asset retirement obligations. It may be useful to read this Section in conjunction with LIABILITY FOR CONTAMINATED SITES, Section PS 3260, CONTINGENT LIABILITIES, Section PS 3300, and CONTRACTUAL OBLIGATIONS, Section PS 3390.

- LOAN GUARANTEES, Section PS 3310

Paragraph PS 3310.06, note 2: See Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS~~, paragraph 8.16 ~~PS 1000.44~~.

- REVENUE, Section PS 3400

.14 For an economic inflow to be recognized as revenue, the general recognition criteria in Chapter 9 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~, must be met. A public sector entity recognizes only those future economic benefits it expects to obtain. Revenue is expected when:

(a) a transaction or event has occurred; and

(b) the public sector entity expects to obtain future economic benefits.

…

.65 Chapter 9 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.55,~~ requires that in order for a transaction to be recognized, a reasonable estimate can be made of the amount involved.

- GOVERNMENT TRANSFERS, Section PS 3410

Paragraphs PS 3410.10, note 6: See paragraph 8.11(b) of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, PS 1000.36(c)~~.

Paragraph PS 3410.13, note 7: See Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, paragraphs PS 1000.35-.38~~.

…

.34 A recipient government recognizes an asset arising from a transfer when:

(a) it gains control of resources that meet the definition of an asset; and

(b) the general recognition criteria set out in Chapter 9 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000,~~ are met.

- INTER-ENTITY TRANSACTIONS, Section PS 3420

.09 If inter-entity transactions involve the transfer of assets or liabilities, both entities would recognize the transactions. The provider would remove the assets or liabilities from its financial statements and any difference between the net proceeds received, if any, and the carrying amounts transferred would be accounted for as a revenue or expense in the statement of operations. The recipient would recognize assets or liabilities in its financial statements when the items satisfy the definition and recognition criteria for an asset and liability in Chapter 8 and 9 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~.

- RESTRUCTURING TRANSACTIONS, Section PS 3430

.22 Assets and liabilities are defined in Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~. Recognition criteria and definitions of individual asset and liability items are specified in individual Sections of the PSA Handbook.

- FINANCIAL INSTRUMENTS, Section PS 3450

.092 When a government obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enchancements (for example, guarantees), and such assets meet the recognition criteria (see Chapter 9 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~), a government discloses for such assets held at the financial statement date:

(a) the nature and carrying amount of assets; and

(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

…

A55 Paragraph PS 3450.088(a) requires disclosures of summary quantitative data about a government's exposure to risks based on the information provided internally to a government's key management personnel. When a government uses several methods to manage a risk exposure, it would disclose information using the method or methods that provide the most relevant and representationally faithful ~~reliable~~ information. Chapter 7 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~, addresses relevance and faithful representation reliability.

- TAX REVENUE, Section PS 3510

.08 *Taxes should be recognized as assets and revenue when:*

(a) they meet the definition of an asset set out in Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~;

(b) they are authorized as described in paragraphs PS 3510.17; and

(c) the taxable event occurs. [APRIL 2012*]

Footnote: *Editorial change – Month 2022.

.09 A government would only recognize tax revenue that it expects to collect in accordance with the general recognition criteria in Chapter 9 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.55~~. If at the time the tax is imposed, the government expects for specific or exceptional reasons that it is unlikely to collect it, the tax revenue would not be recognized. This determination made at the time of initial recognition is contrasted with the evaluation of the ultimate collectability of tax receivables considered under "subsequent measurement of tax receivables" set out in paragraphs PS 3510.31-.32.

- INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS

.02 The Sections that follow this Introduction apply only to GNFPOs that elect to follow the standards for not-for-profit organizations in the CPA Canada PSA Handbook. These Sections deal with matters that are unique to not-for-profit organizations, or with issues where the needs of financial statement users indicate that different requirements from those that apply to governments, other government organizations or government business enterprises are appropriate. These Sections have not been assessed for consistency with the concepts set out in the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~.

…

.04 The following table sets out the applicability of CPA Canada PSA Handbook Sections to GNFPOs that elect to follow the standards for not-for-profit organizations in the CPA Canada PSA Handbook. Sections are considered to be of general applicability if they address matters that should be considered by all GNFPOs. Other Sections are applicable to the extent that a particular organization has the transactions or circumstances dealt with in the Section. The remaining Sections are of very limited or no applicability to GNFPOs.

Section	General applicability	Applies to GNFPOs with relevant transactions or circumstances	Limited or no applicability to GNFPOS
Conceptual Framework ~~PS 1000, FINANCIAL STATEMENT CONCEPTS~~	X[2]		
~~PS 1100, FINANCIAL STATEMENT OBJECTIVES~~	~~X~~		

Note 2: In the event that the provisions of the Conceptual Framework ~~Section PS 1000~~ conflict with Sections PS 4210 and PS 4230 on the deferral of contributions and costs, Sections PS 4210 and PS 4230, respectively, apply.

- FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4200

.02 The following terms are used in this Section with the meanings specified. Definitions for financial statement elements, such as assets and liabilities, are included in Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~. Additional definitions of particular relevance to financial reporting by not-for-profit organizations are presented in CONTRIBUTIONS – REVENUE RECOGNITION, Section PS 4210, and CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4230.

- COLLECTIONS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4240

.04 Although items meeting the definition of a collection exhibit the characteristics of assets set out in Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~, they are not recognized in financial statements issued by governments and they are excluded from the definition of capital assets. Collections are made up of items that are often rare and unique. They have cultural and historical significance. 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 organization's 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.

- SALE-LEASEBACK TRANSACTIONS, PSG-5

8 The components approach is consistent with ~~the conceptual basis of~~ FINANCIAL STATEMENT PRESENTATION, Section PS 1202 ~~1201~~, such that only amounts that meet the definitions of assets and liabilities in Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~, are presented on the statement of financial position (i.e., the deferral of amounts resulting from sale-leaseback transactions is not permitted as they do not meet these definitions).

- PURCHASED INTANGIBLES, PSG-8

6 Purchased intangibles are recognized as assets in financial statements when they meet the asset definition and the general recognition criteria in Chapter 8 and 9 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~. The general application standard, ASSETS, Section PS 3210, provides guidance for applying the asset definition.

7 In determining how to account for purchased intangibles, similar to other items not specifically addressed in the PSA Handbook, an entity would consider:

(a) the definition of an asset in Chapter 8 of the Conceptual Framework ~~Section PS 1000~~;

(b) the guidance elaborating on the asset definition in Section PS 3210;

(c) the recognition, measurement and disclosure concepts in Chapters 9 and 10 of the Conceptual Framework ~~Section PS 1000~~; and

(d) the GAAP hierarchy in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150.

In the following Sections, reference to Section PS 1000 will be replaced with the appropriate reference to the financial statement presentation standard, proposed Section PS 1202.[1]

- LOANS RECEIVABLE, Section PS 3050

.05 A loan receivable is a financial asset as defined in FINANCIAL STATEMENT PRESENTATION ~~CONCEPTS~~, paragraph PS 1202.005(a) ~~1000.40~~. Key to the definition is the fact that financial assets provide resources to discharge existing liabilities or finance future operations. Many of the accounting issues related to government loans receivable hinge on this aspect of the loan receivable definition.

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[1] The definitions of financial asset and non-financial asset are proposed to be moved from the proposed Conceptual Framework to the financial statement presentation standard. These are definitions of categories of assets, not element definitions, and so do not belong in the proposed Conceptual Framework.

- GOVERNMENT TRANSFERS, Section PS 3410

  Paragraph PS 3410.05(e), note 4: In accordance with FINANCIAL STATEMENT PRESENTATION CONCEPTS, Section PS 1202 1000, all intangibles that have been developed or inherited in right of the Crown, and items inherited by right of the Crown, such as Crown lands and natural resources that have been inherited in right of the Crown, forests, water and mineral resources, as well as works of art and historical treasures, are not recognized as assets in government financial statements.

As a result of withdrawing Section PS 1100, references to "FINANCIAL STATEMENT OBJECTIVES, Section PS 1100" will be replaced with general references to the Conceptual Framework in the following Sections:

- RETIREMENT BENEFITS, Section PS 3250

  .005 The standards in this Section are based on the <u>Conceptual Framework</u> ~~accounting framework recommended in FINANCIAL STATEMENT OBJECTIVES, Section PS 1100~~, and FINANCIAL STATEMENT PRESENTATION, Section PS <u>1202</u> ~~1201~~. That <u>Conceptual F</u>ramework emphasizes the need to account for all liabilities incurred by a government to help legislators, taxpayers, investors and other users of **financial statements** assess: a government's future cash requirements from taxes and other revenues; its ability to meet financial obligations, both short-term and long-term; and its ability to maintain current services and finance new programs. Such assessments are essential when making financial decisions in government and when evaluating those decisions.

- INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS

Section	General applicability	Applies to GNFPOs with relevant transactions or circumstances	Limited or no applicability to GNFPOS
<u>Conceptual Framework</u> ~~**PS 1000, FINANCIAL STATEMENT CONCEPTS**~~	X[2]		
~~**PS 1100, FINANCIAL STATEMENT OBJECTIVES**~~	~~X~~		

In GOVERNMENT REPORTING ENTITY, Section PS 1300, the following consequential amendments are proposed:

.03 ~~FINANCIAL STATEMENT OBJECTIVES, Section PS 1100~~ Chapter 6 of the Conceptual Framework, states that government financial statements should provide an accounting of the full nature and extent of the financial affairs of an entity. Financial statements should also account for ~~and~~ the economic resources that an entity controls and the economic obligations it must settle ~~the government controls~~, including those related to the activities of its components and controlled organizations ~~government agencies and enterprises~~. ~~This Section~~ The Conceptual Framework also states that ~~those~~ financial statements are a ~~principal means~~ fundamental component of the financial reporting of an entity. Through its financial statements ~~by which~~ a government demonstrates its accountability for the financial affairs and resources entrusted to it. Financial statements ~~and~~ should also provide information useful in evaluating a government's performance in the management of its financial affairs and resources.

Amending the general application standards

Amendments to the general application standards LIABILITIES, Section PS 3200, and ASSETS, Section PS 3210, are proposed to:

- make the definitions and essential characteristics of an asset and a liability consistent with those in Chapter 8 of the proposed Conceptual Framework;
- replace references to "transaction(s) or event(s)" with "transaction(s) or other event(s)" or "event(s)" where applicable to make them consistent with the clarification introduced in the proposed Conceptual Framework that transactions are a subset of events;
- insert a footnote recognizing that "transactions are a subset of events" consistent with the language in the proposed Conceptual Framework; and
- insert "economic" before "obligations" where applicable as the proposed Conceptual Framework specifies that liabilities are **economic** obligations in the same way that assets are **economic** resources.

In Section PS 3200, "government" will be replaced with "public sector entity" or "entity" where applicable as this Section applies to all public sector entities. As a general application standard that amplifies the characteristics of the liability definition set out in Chapter 8 of the proposed Conceptual Framework, Section PS 3200 should refer to "public sector entity" rather than "government". Section PS 3210 was issued after Section PS 3200 and already refers to "public sector entity" or "entity" rather than "government".

LIABILITIES, Section PS 3200

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.01 This Section:

(a) provides guidance for applying the definition of liabilities set out in Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000,~~ and establishes general recognition and disclosure standards for liabilities; but

(b) does not include standards for recognition and disclosure of specific types of liabilities, which are dealt with in individual CPA Canada Public Sector Accounting Handbook Sections.

…

.04 Liabilities arise from many types of economic obligations. Economic obligations ~~Obligations~~ result in an entity ~~government~~ being bound or committed to a particular course of action. They can arise from:

…

(b) legislation:

(i) another government's legislation (for example, environmental legislation of one level of government could place legal obligations on another government or one of its components or controlled entities to prevent, abate or clean up environmental damage);

~~(c)~~ (ii) a government's own legislation (for example, legislation may require the government or one of its components or controlled entities to make transfers to organizations and individuals that meet certain criteria set out in that legislation);

~~(d)~~ (c) constructive obligations (that is, those that can be inferred from the facts in a particular situation); and

~~(e)~~ (d) equitable obligations (that is, those that are based on ethical or moral considerations).

.05 A liability is a **~~Liabilities~~** ~~are~~ present economic obligations~~s~~ of an entity ~~government~~ to others as a result of ~~arising from~~ past ~~transactions or~~ events[1], the settlement of which is expected to result in the future sacrifice of economic benefits~~s~~. Liabilities have three essential characteristics:

(a) they embody a duty or responsibility to others, leaving an entity ~~a government~~ little or no discretion to avoid settlement of the obligation;

(b) the duty or responsibility to others entails settlement by future transfer or use of economic resources ~~assets,~~ (such as the provision of goods or services~~,~~ or other form of economic settlement) at a specified or determinable date, on occurrence of a specified event, or on demand; and

(c) the transaction(s) or other event(s) obligating the entity ~~government~~ has ~~have~~ already occurred.

Paragraph PS 3200.05, note 1: "Events" include "transactions". "Transactions" are a subset of events.

.06 Economic obligations ~~Obligations~~ are not liabilities unless they meet the three characteristics of liabilities.[2]

Paragraph PS 3200.06, note 2: References to the term "obligation" in the remainder of the PSA Handbook refer to "economic obligation" as described in Chapter 8 of the Conceptual Framework.

Discretion

.07 Discretion is the ability to make individual choices, judgments or decisions. Decisions such as budgeting for purchases or transfers and future program expenditures are not present economic obligations. In these circumstances an entity ~~government~~ is not bound to a particular course of action, as the entity ~~government~~ has realistic alternatives to change or avoid the obligation through its own actions.

.08 Having little or no discretion means that an entity ~~government~~ has no realistic alternative but to settle the obligation. The economic obligation does not depend on future actions of the entity ~~government~~ or other ~~transactions or~~ events. The entity ~~government~~ has given up its freedom to make further choices, judgments and decisions related to the obligation.

.09 For constructive and equitable obligations, determining when an entity ~~government~~ has little or no discretion to avoid the obligation can be a matter of professional judgment. In assessing when an entity ~~government~~ may have lost its discretion to make decisions and judgments, one would consider whether an entity ~~government~~ has created a valid expectation among others and, as a result, has no realistic alternative but to settle its obligation.

.10 For these types of obligations, an entity ~~government~~ has little or no discretion when there is a preponderance of evidence that:

(a) the entity ~~government~~ acknowledges and indicates it will act upon its decision to accept responsibility for the obligation; and

(b) the entity ~~government~~ has sufficiently communicated its decision to the affected parties.

.11 Intentions and individual items of evidence on their own may not be sufficient for determining whether an entity ~~government~~ has little or no discretion. However, when taken together, there may be a preponderance of evidence indicating that it has. Each circumstance needs to be judged individually given the available information.

.12 Evidence that an entity ~~government~~ has acknowledged and will act upon its decision to accept responsibility for the economic obligation can include, but is not limited to, consideration of the following:

(a) past practices;

(b) established policies;

(c) cabinet minutes, orders-in-council, ministerial orders;

(d) approved plans;

(e) ministerial letters; and

(f) approval of legislation at various stages, such as first, second or third reading.

.13 If those affected are unaware of the entity ~~government~~ making its decision, no obligation can exist; the decision must be communicated to the parties affected. Communication to affected parties needs to be sufficient so that it creates a valid expectation among others resulting in an entity ~~government~~ not being able to withdraw from the obligation and having no realistic alternative but to settle the economic obligation.

.14 Evidence that an entity ~~government~~ has sufficiently communicated its decision to affected parties could include, but is not limited to, the following:

(a) an announcement of the amount the entity ~~government~~ is providing;

(b) identification of the individuals, organizations or groups affected by the decision; and

(c) an announcement of the time frame for implementing the decision.

.15 When taken together, an entity’s ~~government's~~ decision and communication of that decision can raise a valid expectation among others that it will accept certain responsibilities and, as a result, the entity ~~government~~ has little or no discretion to avoid the obligation and cannot realistically withdraw from it.

.16 There may be situations where an entity ~~government~~ is contemplating a particular program and evidence of the program may be found in approved plans or other similar documents. However, without sufficient evidence that the entity ~~government~~ has accepted responsibility for and communicated its decision, a person may be acting on that information to his or her own detriment.

.17 Not all established patterns of past practice or policy decisions lead to a loss of discretion. There are numerous examples where an entity ~~government~~, in the past, has enhanced pension and other similar benefits to employees. However, more recently, entities ~~governments~~ have been reducing or eliminating those benefits, so in this case past practice is not sufficient to indicate that an entity ~~government~~ has little or no discretion to avoid the obligation.

Sacrifice of economic benefits

.18 Sacrificing economic benefits embodies a duty or responsibility to others to a future transfer or use of economic resources ~~assets,~~ (such as the provision of goods or services~~,~~ or other form of economic settlement) at a specified or determinable date, on occurrence of a specified event, or on demand.

.19 The economic obligation to sacrifice economic benefits must be to a third party. It is necessary that the third party ~~entity or individual~~ exist at the financial statement date. It is not necessary, however, for the entity ~~government~~ to know the specific identity of the party or parties involved, as the economic obligation may be to the public at large or to a specific group of recipients.

.20 Some economic obligations to sacrifice economic benefits may be shared, as two or more entities ~~governments~~ may be jointly and severally liable. Most economic obligations bind a single entity ~~government~~, and those that bind two or more entities ~~governments~~ are commonly ranked rather than shared. For example, a primary debtor and a guarantor may both be obligated for a debt, but they would not have the same economic obligation — the guarantor must sacrifice economic benefits only if the primary debtor defaults.

.21 The timing of the sacrifice of economic benefits in the future must be specified. An economic obligation to sacrifice economic benefit to others requires settlement at a specified or determinable date, such as within 30 days, on occurrence of a specified event, such as those related to cost-sharing agreements, or on demand, such as with certain bank loans.

Past transactions and other events[3]

Note 3: The term "events" includes "transactions" as "transactions" are a subset of "events".

.22 It is the occurrence of a past obligating transaction or other event on or before the financial statement date that distinguishes a present economic obligation to sacrifice economic benefits from a future economic obligation.

.23 The obligating transaction or other event arising from exchange agreements or contracts usually occurs at the point of exchange. Once title to the good is assumed by an entity ~~government~~, that entity ~~government~~ is obligated to settle.

.24 The actions of others, such as meeting eligibility criteria, often determine when an obligating transaction or other event occurs in non-exchange agreements and contracts. Shared cost agreements are an example where the obligating transaction or other event occurs when the recipient incurs eligible expenditures.

.25 The existence of another government's legislation ~~on its own~~ is not an obligating transaction or other event, on its own. Environmental legislation, for example, may establish basic rules that, if not complied with, can result in a present economic obligation. However, normally it is the occurrence of environmental damage that is the obligating transaction or other event.

.26 The existence of a government's own legislation containing details of ~~the~~ its ~~government's~~ policy in relation to a particular program is not an obligating transaction or other event for the government or its components or organizations:

(a) for programs such as entitlements until recipients meet the eligibility criteria;

(b) for programs that provide relief assistance to natural disaster victims until such a disaster occurs.

.27 Legislation having retroactive application cannot create a past obligating transaction or other event. Any economic obligations related to such legislation would be accounted for in the current period, not in the period of the effective date of the legislation.

DISCLOSURE

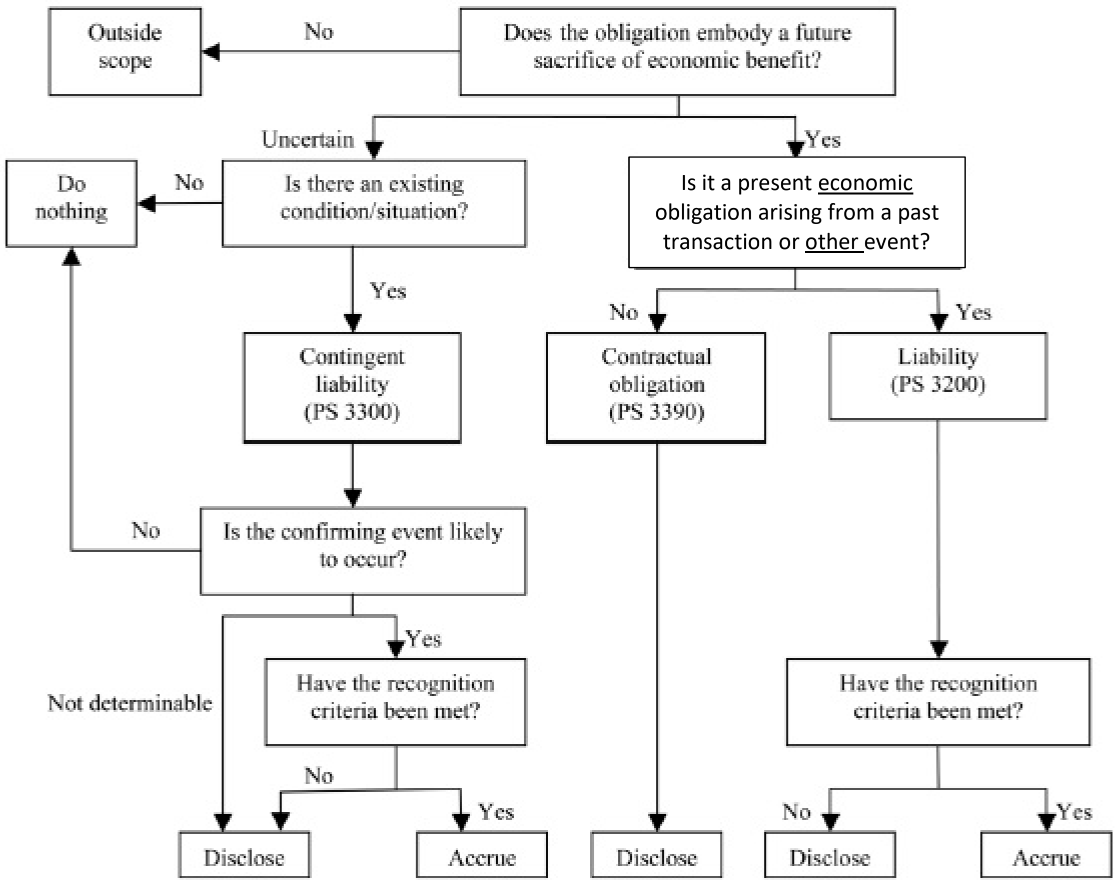
.28 An economic obligation may meet the definition of a liability; however, it is not capable of being recognized in financial statements because a reasonable estimate of the amount involved cannot be made.

.29 For unrecognized liabilities, disclosing the nature of the liability provides information about the potential effect on the entity's ~~government's~~ financial statements when the liability becomes measurable.

…

APPENDIX

DECISION TREE — OBLIGATIONS



ASSETS, Section PS 3210

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PURPOSE AND SCOPE

.01 This Section:

(a) provides guidance for applying the definition of assets set out in Chapter 8 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000~~, and establishes general disclosure standards for assets; but

(b) does not include standards for recognition and disclosure of specific types of assets, which are dealt with in other Handbook Sections.

…

.03 An **asset** is a present ~~**Assets** are~~ economic resource~~s~~ controlled by a public sector entity as a result of past ~~transactions or~~ events[1] and from which future economic benefit~~s~~ ~~are~~ is expected to be obtained.

Paragraph PS 3210.03, note 1: "Events" include "transactions". "Transactions" are a subset of events.

.04 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 ~~can~~ 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.

…

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service potential ~~capacity~~ of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

…

Past transactions and other events[2]

Note 2: The term "events" includes "transactions" as "transactions" are a subset of "events".

.25 It is the occurrence of a past transaction or other event on or before the financial statement date that distinguishes a present economic resource controlled by a public sector entity from an economic resource that may be controlled by a public sector entity in the future.

.26 The past transaction or other event that gives rise to control of an economic resource resulting from exchange agreements or contracts usually occurs at the point of exchange. This arises when substantially all the benefits and risks of ownership have been transferred to the public sector entity and normally coincides with the disbursement of funds, exchange of other assets or assumption of liabilities.

.27 Meeting the eligibility criteria under an authorized transfer often determines the past transaction or other event giving rise to control of an economic resource in non-exchange contracts or agreements. Shared cost agreements (reimbursement arrangements) are an example where the control of an economic resource arises when the recipient incurs eligible expenditures.

.28 The existence of a law, by-law or policy in relation to a particular program is not a past transaction or other event that gives rise to control of an economic resource. Control does not exist until the underlying event occurs.

.29 The past transaction or other event giving rise to control of an economic resource must have occurred by the financial statement date. Legislation having retroactive application cannot create a past transaction or other event. Any economic resources related to that legislation would be accounted for in the current and relevant future periods, not in the period of the effective date of the legislation.

An amendment to the definition of a liability, which is in the following Sections, is proposed, consistent with the definition in the proposed Conceptual Framework:

- RETIREMENT BENEFITS, Section PS 3250

Glossary

A **liability** is a ~~**Liabilities** are~~ present economic obligation~~s~~ of an entity ~~government~~ to others as a result of ~~arising from~~ past ~~transactions or~~ events[1], the settlement of which is expected to result in the future sacrifice of economic benefits.

Note 1: “Events” include “transactions”. “Transactions” are a subset of events.

- LOAN GUARANTEES, Section PS 3310.

.06 The key issue in accounting for loan guarantees is assessing when a provision for losses on loan guarantees should be recognized as a liability and an expense. A liability is ~~Liabilities are~~ a present economic obligation~~s~~ of an entity ~~government~~ to others as a result of ~~arising from~~ past ~~transactions or~~ events, the settlement of which is expected to result in the future sacrifice of economic benefit~~s~~.[2]

Related Note 2 is amended on page 7 of this document.

Amending Section PS 3400

Proposed amendments to paragraphs PS 3400.02 and PS 3400.27 would adopt the refinements in the revenue and liability definitions proposed in Chapter 8 of the proposed Conceptual Framework.

.02 **Revenue**~~**s**~~, including a gain~~s~~, ~~are~~ is an increase~~s~~ in ~~economic resources, either by way of increases of~~ assets or a decrease~~s of~~ in liabilities~~, resulting from operations, transactions~~

~~and events of~~ in the accounting period that results in an increase in net assets or a decrease in net liabilities.

…

.27 An unfulfilled performance obligation for a public sector entity has all three of the essential characteristics of a liability. It is a present economic obligation of a public sector entity to others as a result of ~~arising from~~ past ~~transactions or~~ events[1], the settlement of which is expected to result in the future sacrifice of economic benefits. There is:

(a) a duty or responsibility to others, leaving a public sector entity little or no discretion to avoid settlement of the obligation;

(b) a duty or responsibility to others that entails settlement by a future transfer or use of economic resources (~~assets,~~ such as the provision of goods or services~~,~~ or other forms of economic settlement) at a specified or predetermined date, on occurrence of a specified transaction or other event, or on demand; and

(c) a transaction or other event obligating the public sector entity that has already occurred.[2]

Paragraph PS 3400.27, note 1: "Events" include "transactions". "Transactions" are a subset of events.

Paragraph PS 3400.27, note 2: There could also have been the occurrence of multiple events that obligated the entity.

Amending the "Introduction to Public Sector Accounting Standards"

PSAB proposes to amend the title "Introduction to Public Sector Accounting Standards" to "Introduction to the Public Sector Accounting Handbook" (the Introduction). The Introduction applies to the entire PSA Handbook, not only the public sector accounting standards that form generally accepted accounting principles (GAAP). The proposed Conceptual Framework would follow the Introduction.

The existing conceptual framework is set out in the same format as a standard in Section PS 1000 and parts of Section PS 1100. This has resulted in some confusion as to whether the Conceptual Framework forms part of public sector accounting standards and so, part of GAAP. The Conceptual Framework does not form part of GAAP. However, it is the foundation for GAAP and the reference for developing new standards when GAAP is silent. PSAB concluded that renaming the Introduction would help clarify the status of the Conceptual Framework.

PSAB proposes amendments to the following paragraphs of the Introduction to include the term "Conceptual Framework":

Introduction to the Public Sector Accounting Handbook ~~standards~~

.11 The Conceptual Framework and these public sector standards apply to all public sector entities that issue general purpose financial statements unless:

(a) specifically directed or permitted to use alternative standards by PSAB, or

(b) limited in applicability as outlined in the individual Sections.

…

.14 For purposes of preparing general purpose financial statements, governments apply the Conceptual Framework and standards for governments in the PSA Handbook.

.15 For purposes of preparing general purpose financial statements, government components apply the Conceptual Framework and standards for governments in the PSA Handbook.[1]

…

.17 For purposes of preparing general purpose financial statements, government business enterprises apply the Conceptual Framework and standards for publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting.

.18 For purposes of preparing general purpose financial statements, government not-for-profit organizations apply the Conceptual Framework and standards for not-for-profit organizations in the PSA Handbook or the Conceptual Framework and standards in the PSA Handbook without Sections PS 4200 to PS 4270 (the PS 4200 series).

.19 For purposes of preparing general purpose financial statements, other government organizations would normally apply the Conceptual Framework and standards for governments in the PSA Handbook. When these standards do not meet their financial statement users' needs, the Conceptual Framework and standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting should be considered. The Conceptual Framework and standards determined to be most appropriate should be disclosed and consistently applied.

.20 Determining the most appropriate Conceptual Framework and standards for other government organizations requires the application of professional judgment. Factors to consider in assessing users' needs, in addition to those outlined in Chapter 3 of the

Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000,~~ include, but are not limited to, whether an organization:

…

The degree of importance of these factors further depends on the particular circumstances in each case, including the nature of an organization's mandate and considering its purpose, objectives and limitations. In some situations, a particular factor may provide a high degree of evidence of the appropriateness of a particular set of standards whereas, in other situations, the importance of the same factor may not be as significant. Positive responses to one or a combination of these factors would indicate the Conceptual Framework and standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting may be more appropriate.

.21 For purposes of preparing general purpose financial statements, partnerships between two or more public sector entities,[3] except for business partnerships, would normally apply the Conceptual Framework and standards for governments in the PSA Handbook. When these standards do not meet their financial statement users' needs, the Conceptual Framework and standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting should be considered. Factors to consider in assessing users' needs are included in paragraph .20. The Conceptual Framework and standards determined to be most appropriate should be disclosed and consistently applied.

.22 For purposes of preparing general purpose financial statements, business partnerships between two or more public sector entities[4] apply the Conceptual Framework and standards for publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting.

.23 The Conceptual Framework and standards used by partnerships and business partnerships with one or more private sector partners is not specified by the PSA Handbook but, instead, determined by the partners.

.24 The chart included as Appendix A to this Introduction is intended to assist in applying the appropriate Conceptual Framework and standards to various types of public sector entities.

As a result of amending the title of the Introduction, references to the Introduction will be amended in the following Sections:

- DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100;

.07 The description of the significant accounting policies includes the source of the basis of accounting used in accordance with the Introduction to the Public Sector Accounting Handbook ~~Standards~~ (i.e., the financial statements have been prepared in accordance with Canadian public sector accounting standards), a definition of the reporting entity to which the financial statements relate and, in the case of consolidated statements, the basis for including and excluding related entities.

- BASIC PRINCIPLES OF CONSOLIDATIONS, Section PS 2500;

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

…

(j) A **government not-for-profit organization** is a government organization that has all of the following characteristics:

(i) It is a separate entity with the power to contract in its own name and that can sue and be sued.

(ii) It has counterparts outside the public sector as defined in paragraph .02 of Introduction to the Public Sector Accounting Handbook ~~Standards~~.

…

Paragraph PS 2500.04(e), note 1: A government component is defined in the Introduction to the Public Sector Accounting Handbook ~~Standards~~.

- SEGMENT DISCLOSURES, Section PS 2700;

.23 For purposes of their financial reporting, government organizations base their accounting policies on the Conceptual Framework and standards of the CPA Canada Handbook – Accounting or the CPA Canada PSA Handbook as directed in the Introduction to the Public Sector Accounting Handbook ~~Standards~~. For purposes of segment reporting, all accounting policies, other than those for government business enterprises, would be conformed to the accounting policies adopted for preparing and presenting the consolidated financial statements of the government. These would be the Conceptual Framework and standards of the CPA Canada PSA Handbook.

- INTERESTS IN PARTNERSHIPS, Section PS 3060;

Paragraph PS 3060.30, note 5: Government organizations are defined in the Introduction to the Public Sector Accounting Handbook ~~Standards~~.

- INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070; and

  Paragraph PS 3070.03(d), note 1: A government component is defined in the Introduction to the Public Sector Accounting Handbook ~~Standards~~.

- INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS.

  .01 The CPA Canada Public Sector Accounting (CPA Canada PSA) Handbook applies to all governments and those organizations that consider it to be the appropriate source of generally accepted accounting principles (GAAP) with respect to their objectives and circumstances. A government not-for-profit organization (GNFPO) is a government organization that meets the definition of a not-for-profit organization[1] and has counterparts outside the public sector as defined in THE INTRODUCTION TO THE PUBLIC SECTOR ACCOUNTING HANDBOOK ~~STANDARDS~~, paragraph .07.

Amending Section PS 2100

The proposed Conceptual Framework considers the importance of notes, including the disclosure of accounting policies. As a result, PSAB concluded that certain proposed consequential amendments were required to Section PS 2100 to:

- include references to digital technology and remove certain restrictions where technology can assist in making the disclosure and financial statements more understandable; and
- replace the references to "the considerations" with "the qualitative characteristics and related considerations" in Chapter 7 of the proposed Conceptual Framework.

The following consequential amendments are proposed:

.02 ~~There are a number of alternative accounting policies that may be applied to similar items. Because alternative accounting policies can produce significantly different results, a~~ A description of the accounting policies is necessary for the reader to interpret the financial statements and to become aware of differences when comparing them with the statements of similar entities. The description is an integral part of the financial statements since it is necessary for their interpretation. It should be concise ~~or it may not be read~~, yet be clear to facilitate understanding and consistent interpretation. The description of accounting policies would not include amounts~~,~~ or analytical data ~~or cross-references to specific items~~. Such information would be included in other notes to the financial statements.

…

.04 Appropriate accounting policies are those that result in fair note disclosure of financial information. It is important that accounting policies be selected to meet this objective. Fair note disclosure is not separable from fair presentation of financial statements generally, because presentation includes disclosure. Classification and presentation on the face of the financial statements are augmented and supported by the accompanying notes. The qualitative characteristics and the related considerations, as discussed in Chapter 7 of the Conceptual Framework, will be taken into account when selecting accounting policies. ~~There are a number of general considerations involved in this selection, including prudence, substance over form and materiality:~~

~~(a) Prudence requires that inevitable uncertainties surrounding many transactions be recognized and that the policy selected be directed toward an unbiased result that is neither overly optimistic nor pessimistic.~~

~~(b) Substance over form requires that transactions and other events be accounted for and presented in accordance with their financial reality.~~

~~(c) Materiality requires taking into account the significance of an item to users of financial statements.~~

…

.12 The use of technology may allow details of significant accounting policies related to individual financial statement items to be disclosed with the relevant note for each item as long as cross-references to such details are included in a single significant accounting policy note.

Amending references to "measurement uncertainty"

Chapter 9 of the proposed Conceptual Framework discusses measurement uncertainty. It states that measurement uncertainty includes realization uncertainty and estimation uncertainty. However, MEASUREMENT UNCERTAINTY, Section PS 2130, does not deal with realization uncertainty, only estimation uncertainty. As a result, consequential amendments are proposed to Section PS 2130 to be consistent with the proposed Conceptual Framework. The proposed amendments include replacing "measurement uncertainty" with "estimation uncertainty" throughout Section PS 2130, including the title of the Section.

Other proposed amendments to Section PS 2130 include the following that would make the Section consistent with the wording in the proposed Conceptual Framework:

ESTIMATION ~~MEASUREMENT~~ UNCERTAINTY, Section PS 2130

PURPOSE AND SCOPE

.01 This Section establishes disclosure standards for estimation ~~measurement~~ uncertainty arising from items recognized or disclosed in financial statements. The disclosure standards in this Section supplement the standards in other Sections.

DEFINITIONS

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

…

(b) **Estimation ~~Measurement~~ uncertainty** is uncertainty in the determination of the amount at which an item is recognized or disclosed in financial statements. Such uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.[1]

Paragraph PS 2100.02(b), note 1: Refer to Chapter 9 of the Conceptual Framework for additional guidance on estimation uncertainty.

.03 Part of the estimation ~~measurement~~ process includes the review of amounts of financial statement items to assess the need for a revision of an amount. Estimation ~~Measurement~~ uncertainty may exist even if an amount is not revised. Many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action.

.04 The effect of using alternative accounting policies or methods that are disclosed in accordance with DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100, is not considered an estimation ~~measurement~~ uncertainty.

…

.06 *The nature of estimation ~~measurement~~ uncertainty that is material should be disclosed.* [APRIL 2005*]

.07 *The extent of estimation ~~measurement~~ uncertainty that is material should be disclosed when it is reasonably possible that the amount could change by a material amount in the near term.* [APRIL 2005*]

.08 *When disclosure has been made in accordance with paragraph PS 2130.06 or PS 2130.07, the amount of the item subject to estimation ~~measurement~~ uncertainty should be disclosed, except when disclosure of the amount would have a significant adverse effect on the entity.*

When the amount is not disclosed, the notes should indicate the reason(s) for non-disclosure. [APRIL 2005*]

Footnote: *Editorial change – Month 2022

.09 The materiality of the effect of the estimation ~~measurement~~ uncertainty on the financial statements is the sole criterion for determining whether disclosure of estimation ~~measurement~~ uncertainty in accordance with paragraphs PS 2130.06-.07 would be made. Materiality is the term used to describe significance of financial statement information to decision makers. An item of information, or an aggregate of items, is material if omitting, misstating or obscuring it would impair the assessment of accountability by the users or influence the decisions they make ~~it is probable that its omission or misstatement would influence or change a decision~~. Materiality is a matter of professional judgment in the particular circumstances.

.10 There is a degree of uncertainty associated with the estimation ~~measurement~~ of many amounts recognized or disclosed in the financial statements. In many cases, however, such uncertainty is not material. A decision about whether estimation ~~measurement~~ uncertainty has a material effect on the financial statements is a matter of professional judgment. Management would consider information such as the range of reasonably possible amounts; whether the amount could change by a material amount; the impact of other reasonably possible amounts on the government's economic resources, obligations and net assets or net liabilities; and the possible timing of the impact. A judgment about materiality of estimation ~~measurement~~ uncertainty would be made considering the effect that a different reasonably possible amount would have on the financial statements.

.11 Disclosure of the nature of the estimation ~~measurement~~ uncertainty would include a description of the circumstances giving rise to the uncertainty and relevant information about the anticipated resolution of the uncertainty.

.12 The estimation of the amount of an item to be accrued or disclosed in financial statements may be based on information that provides a range of amounts. When a particular amount within such a range appears to be a better estimate than any other, that amount would be used. When uncertainty exists, estimates used would attempt to ensure that assets, revenues, liabilities and expenses ~~and gains~~ are not overstated or ~~and that liabilities, expenses and losses are not~~ understated. Estimates of the financial effect are determined using professional judgment, supplemented by experience of similar transactions and, in some cases, reports from independent experts. Estimates include any additional evidence provided by subsequent events occurring after the financial statement date.

…

.15 Consideration would also be given to disclosing other relevant information to describe the estimation ~~measurement~~ uncertainty, such as:

…

Further, the references to MEASUREMENT UNCERTAINTY, Section PS 2130, would be replaced with ESTIMATION UNCERTAINTY, Section PS 2130, in the following Sections:

- LIABILITY FOR CONTAMINATED SITES, Section PS 3260

.07 This Section does not deal with disclosure requirements for the following items:

(a) measurement uncertainty related to the estimate of a liability for remediation recognized or disclosed in financial statements (see ~~MEASUREMENT~~ ESTIMATION UNCERTAINTY, Section PS 2130);

…

.69 Uncertainties affecting the measurement of a liability for remediation of contaminated sites are disclosed in accordance with ~~MEASUREMENT~~ ESTIMATION UNCERTAINTY, Section PS 2130.

- ASSET RETIREMENT OBLIGATIONS, Section PS 3280

Estimation ~~Measurement~~ uncertainty .58-.59

…

Estimation ~~Measurement~~ uncertainty

.59 Uncertainties affecting the measurement of a liability for an asset retirement obligation are disclosed in accordance with ~~MEASUREMENT~~ ESTIMATION UNCERTAINTY, Section PS 2130.

- CONTINGENT LIABILITIES, Section PS 3300

.06 The mere fact that an estimate of an amount is involved (~~measurement~~ estimation uncertainty) does not of itself constitute the type of uncertainty that characterizes a contingent liability. For example, amounts owed for goods or services received but not billed are not contingent liabilities, even though the amounts may be estimated. There is nothing uncertain about the fact that these liabilities have been incurred;

any uncertainty is related solely to the amounts thereof. Contingent liabilities are characterized by the uncertainty related to the existence of a liability at the financial statement date.

- CONTINGENT ASSETS, Section PS 3320

.07 The mere fact that an estimate of an amount is involved (~~measurement~~ estimation uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be ~~measurement~~ estimation uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof.

- REVENUE, Section PS 3400

.85 ~~MEASUREMENT~~ ESTIMATION UNCERTAINTY, Section PS 2130, contains specific disclosures for uncertainties affecting the measurement of items recognized or disclosed in financial statements. These disclosures would also apply to revenue recognized under this standard.

- TAX REVENUE, Section PS 3510

.29 Measuring assets arising from tax transactions and the related revenue using estimates may result in the actual amount of assets and revenue assessed being different from the estimated amount recognized. For example, a statistical model might be appropriate for a jurisdiction with a stable tax base but less appropriate for one with a volatile tax base. Such estimates have a more explicit linkage to current events but may be more subjective. In contrast, an approach that uses cash receipts as a basis for estimating the tax revenue accrual may be more objective and verifiable. However, it may also be less responsive to economic changes. Governments that table their financial statements close to their fiscal year end may have limited assessment data on which to base their tax revenue accrual necessitating the use of different estimation techniques. Some jurisdictions may use a combination of these estimation techniques. Revisions to estimates are made in accordance with ACCOUNTING CHANGES, Section PS 2120. Many major tax systems are based on voluntary disclosure. Therefore, even with the best estimation techniques or models, reassessments will occur. Disclosure of the ~~measurement~~ estimation uncertainty related to the estimation of tax assets and revenue would be made in accordance with ~~MEASUREMENT~~ ESTIMATION UNCERTAINTY, Section PS 2130. The nature of the ~~measurement~~ estimation uncertainty related to the estimation of tax revenue would also be indicated in the accounting policy note for tax revenue.

- INTRODUCTION TO ACCOUNTING STANDARDS THAT APPLY ONLY TO GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS

Section	General applicability	Applies to GNFPOs with relevant transactions or circumstances	Limited or no applicability to GNFPOs
PS 2130, ~~MEASUREMENT~~ ESTIMATION UNCERTAINTY	X		

Amending references to "service capacity"

Chapter 3 of the proposed Conceptual Framework defines "service capacity" as the capacity or ability to serve the public. The PSA Handbook uses the term "service capacity" more narrowly referring to the capacity of individual tangible capital assets. As a result, consequential amendments are being proposed to amend references to service capacity where applicable.

- TANGIBLE CAPITAL ASSETS, Section PS 3150

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

…

(f) Service potential is the output or ~~service~~ capacity of a tangible capital asset, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life.

.19 Costs of betterments are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. In general, for tangible capital assets other than complex network systems, service potential may be enhanced when there is an increase in the previously assessed physical output or ~~service~~ its capacity to provide services, where associated operating costs are lowered, the useful life of the property is extended or the quality of the output is improved.

- ASSETS, Section PS 3210

.15 There is a close association between incurring a cost and the generation of an asset. However, not all costs result in a future economic benefit. For example, costs incurred to maintain the current service potential ~~capacity~~ of an asset do not provide a future economic benefit. Also, a public sector entity may obtain an asset without incurring costs. For example, items that have been donated to the public sector entity may provide that entity with future economic benefits and, hence, satisfy the definition of assets.

- CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4230

.05 The definitions that follow have been adopted for purposes of this Section.

…

(h) **Service potential** is used to describe the ~~service~~ capacity or output of a capital asset and is normally determined by reference to attributes such as useful life, associated operating costs, physical output capacity and quality of output.

…

.15 The cost incurred to enhance the service potential of a capital asset is a betterment. Service potential may be enhanced when there is an increase in the previously assessed ~~service~~ physical output or its capacity to provide services, associated operating costs are lowered, the useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of a capital asset is a repair, not a betterment. If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment is included in the cost of the capital asset.

Amending references to "reliability"

The existing conceptual framework lists reliability as a qualitative characteristic. In the proposed Conceptual Framework, PSAB replaced "reliability" with "faithful representation". As a result, "reliable" would be replaced with "faithfully represented" in paragraph PS 3450.018.

.018 As equity instruments represent a residual ownership interest, information about their cost is of limited usefulness, particularly when they are held over an extended period. When equity instruments that are quoted in an active market are portfolio investments, their market value provides a readily available and faithfully represented ~~reliable~~ measure of value at the financial statement date.

More detailed amendments are being proposed for the following Sections:

- INTRODUCTION TO THE PUBLIC SECTOR ACCOUNTING HANDBOOK ~~STANDARDS~~

.30 Neutrality in accounting has a greater significance for those who set accounting standards than for those who have to apply those standards in preparing financial reports, but the concept has substantially the same meaning for the two groups, and both will maintain neutrality in the same way. ~~Neutrality means that either in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest.~~ As a matter of policy, PSAB assesses the merits of proposed standards from a position of neutrality. That is, the soundness of standards is not evaluated on the grounds of their possible impact on behaviour. PSAB does not choose standards according to the kinds of behaviour it wishes to promote and the kinds it wishes to discourage. At the same time, it is admitted that some standards will often have the effect of influencing behaviour, and PSAB is alert to the economic impact of the standards that it promulgates. However, the justification for standards is conceptual and not in terms of their impact.

- RELATED PARTY DISCLOSURES, Section PS 2200

.14 Entities prepare financial statements to provide users with ~~relevant and reliable~~ information that meets the qualitative characteristics in Chapter 7 of the Conceptual Framework for demonstrating accountability for the resources entrusted to the entity and for decision-making purposes. Typically, transactions between two willing parties are recognized in financial statements at the amount of cash or cash equivalents paid or received, which is generally the fair value ascribed to them when they took place.

- REVENUE, Section PS 3400

.66 When a reasonable estimate can be made of the amount involved, the transaction would be recognized. Professional judgment is needed to determine the most relevant and representationally faithful ~~reliable estimated~~ amount given the circumstances. Some methods used to determine a reasonable estimate include applying either:

…

- RESTRUCTURING TRANSACTIONS, Section PS 3430

.12 Fair value of transferred operations or programs is only relevant in determining consideration for acquisitions in the public sector when the transferred program or operation is of a business or revenue-generating nature. The fair value amount can only be evidence of consideration for acquisitions if it meets the qualitative characteristics of ~~reliable information including~~ representational faithfulness and verifiability.

- FINANCIAL INSTRUMENTS, Section PS 3450

.028 The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, a government establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide representationally faithful ~~reliable~~ estimates of prices obtained in actual market transactions, a government uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on inputs specific to that government. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a government calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data.

A33 If the market for a financial instrument is not active, a government establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide representationally faithful ~~reliable~~ estimates of prices obtained in actual market transactions, a government uses that technique.

…

A55 Paragraph PS 3450.088(a) requires disclosures of summary quantitative data about a government's exposure to risks based on the information provided internally to a government's key management personnel. When a government uses several methods to manage a risk exposure, it would disclose information using the method or methods that provide the most relevant and representationally faithful ~~reliable~~ information. Chapter 7 of the Conceptual Framework ~~FINANCIAL STATEMENT CONCEPTS, Section PS 1000,~~ addresses relevance and faithful representation ~~reliability~~.

Revising the definition of "materiality" consistent with the Conceptual Framework

Chapter 7 of the proposed Conceptual Framework defines "materiality". Consequential amendments are being proposed to amend the definition of "materiality" in Section PS 2130.

.09 The materiality of the effect of the estimation ~~measurement~~ uncertainty on the financial statements is the sole criterion for determining whether disclosure of estimation ~~measurement~~ uncertainty in accordance with paragraphs PS 2130.06-.07 would be made. Materiality is the term used to describe significance of financial statement information to decision makers. An item of information, or an aggregate of items, is material if omitting, misstating or obscuring it would impair the assessment of accountability by the users or influence the decisions they make ~~it is probable that its omission or misstatement would influence or change a decision~~. Materiality is a matter of professional judgment in the particular circumstances.

Other amendments

Consequential amendments are proposed to the Glossary of Section PS 3450 to:

- remove the narrow definition of "derecognition" as a more conceptual definition is in Chapter 9 of the proposed Conceptual Framework; and
- remove the definition of "recognition" as it is defined in Chapter 9 of the proposed Conceptual Framework.

~~Derecognition is the removal of previously recognized financial assets or financial liabilities from a government's statement of financial position.~~

…

~~Recognition is the process of including an item in the financial statements. It means inclusion of an item within one or more individual statements and does not mean disclosure in the notes to the financial statements.~~

The following consequential amendment is proposed to paragraph PS 3410.05(e), note 4, to recognize that:

- through recent narrow-scope amendments and the issuance of PSG-8, the PSA Handbook now allows recognition of purchased intangibles; and
- the remaining exclusions from recognition are proposed to be relocated from the existing conceptual framework to the reporting model standard (proposed Section PS 1202):

Paragraph PS 3410.05(e), note 4: In accordance with FINANCIAL STATEMENT PRESENTATION ~~CONCEPTS~~, Section PS 1202 ~~1000~~, ~~all~~ intangibles that have been developed or inherited in right of the Crown, ~~and items inherited by right of the Crown, such as~~ Crown lands and natural resources that have been inherited in right of the Crown~~, forests, water and mineral resources~~, as well as works of art and historical treasures, are not recognized as assets in government financial statements.