PSAB
Public Sector
Accounting Board

Detailed Amendments Proposed in the Exposure Draft, "Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202"

January 2021

Introduction

The purpose of this document is to provide the specific details of all the proposed Public Sector Accounting (PSA) Handbook amendments described in the Exposure Draft, "Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202." 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.

Table of Contents

CONSEQUENTIAL AMENDMENTS ARISING FROM THE FINANCIAL STATEMENT PRESENTATION STANDARD, PROPOSED SECTION PS 1202

The CPA Canada Public Sector Accounting (PSA) Handbook would be amended as indicated in this document. Additional text is denoted by underlining and deleted text by strikethrough.

Withdrawal of the existing financial statement presentation standard

FINANCIAL STATEMENT PRESENTATION, Section PS 1201, would be withdrawn from the PSA Handbook and replaced with FINANCIAL STATEMENT PRESENTATION, proposed Section PS 1202.

Amending references to Section PS 1201

As a result of withdrawing Section PS 1201, the references to "FINANCIAL STATEMENT PRESENTATION, Section PS 1201" will be replaced with "FINANCIAL STATEMENT PRESENTATION, Section PS 1202, in the following Sections:

- GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150

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

…

(c) **Primary sources of GAAP** are, in descending order of authority:

(i) standards in Sections PS 1202 ~~1201~~-PS 3510;

(ii) Public Sector Guidelines; and

(iii) appendices and illustrative material of those pronouncements described in (i)-(ii) above.

- SUBSEQUENT EVENTS, Section PS 2400

.09A Financial statements are complete when:

(a) a complete set of financial statements, including all required note disclosures, has been prepared (see FINANCIAL STATEMENT PRESENTATION, Section PS 1202 ~~1201~~);

- BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500

.11 FINANCIAL STATEMENT PRESENTATION, Section PS 1202 ~~1201~~, requires that a government's expenses of the accounting period be reported on the statement of operations by function or major program. Reporting by function or major program is recommended because this information shows users the purposes for which goods and services have been acquired or consumed and helps them assess the allocation of resources to government functions or programs.

…

.14 FINANCIAL STATEMENT PRESENTATION, Section PS 1202 ~~1201~~, requires that a government's expenses be disclosed by object. The objective of disclosure of expenses by object is to provide information that is useful in evaluating the economic impact of government acquiring or consuming various types of resources. For the purposes of preparing such disclosure, expenses would reflect the resources acquired by the originating governmental unit, such as employees' salaries, goods and services and tangible capital assets.

…

.18 A government is required to report tangible capital assets in accordance with FINANCIAL STATEMENT PRESENTATION, Section PS 1202 ~~1201~~. Those standards require that the net book value of the government's tangible assets be reported as non-financial assets on the statement of financial position. The consumption of tangible capital assets must be recognized as an expense in the government's statement of operations. So, in a government's financial statements, adjustments would need to be made to ensure that the assets are presented at historical cost to the government reporting entity, as follows:

...

- INTERESTS IN PARTNERSHIPS, Section PS 3060

.50 Under FINANCIAL STATEMENT PRESENTATION, Section PS 1202 ~~1201~~, a public sector entity reports tangible capital assets as assets on the statement of financial position. TANGIBLE CAPITAL ASSETS, Section PS 3150, describes the accounting for the tangible capital assets of a public sector entity.

- LONG-TERM DEBT, Section PS 3230

.01 This Section establishes standards on how to account for and report long-term debt in government financial statements[1], including debt issued on behalf of a government business enterprise. It does not address the presentation and disclosure of other long-term obligations of a government. General guidance regarding the presentation and disclosure of a government's financial liabilities is provided in FINANCIAL STATEMENT PRESENTATION, paragraphs PS ~~1201.044-.048~~

1202.073-.083. Retirement benefits are specifically dealt with in RETIREMENT BENEFITS, Section PS 3250. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.

- FINANCIAL INSTRUMENTS, Section PS 3450

.003 This Section does not apply to:

…

(b) inventories or an asset held for sale according to the criteria in FINANCIAL STATEMENT PRESENTATION, paragraph PS 1202.060 ~~1201.055~~;

…

A57 Paragraph PS 3450.090 requires disclosure of the amount that best represents a government's maximum exposure to credit risk. For a financial asset, this is typically the gross carrying amount, net of:

(a) any amounts offset in accordance with paragraph PS 3450.059; and

(b) any impairment losses or changes in valuation allowances recognized in accordance WITH FINANCIAL STATEMENT PRESENTATION, paragraph PS 1202.062 ~~1201.053~~, PORTFOLIO INVESTMENTS, Section PS 3041, and LOANS RECEIVABLE, Section PS 3050.

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

.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
PS 1202~~1201~~, FINANCIAL STATEMENT PRESENTATION	X[3]		

- PUBLIC SECTOR GUIDELINE, (PSG) 2 Leased Tangible Capital Assets

~~31 This Guideline applies to local governments that have adopted FINANCIAL STATEMENT PRESENTATION, PS 1201.~~

- FUNDS AND RESERVES, PSG-4

6 Separate reporting on the financial statements of funds and reserves not supported by assets would be inconsistent with FINANCIAL STATEMENT PRESENTATION, Section PS 1202 ~~1201~~, and RESTRICTED ASSETS AND REVENUES, Section PS 3100.

~~12 This Guideline applies to local governments that have adopted FINANCIAL STATEMENT PRESENTATION, PS 1201.~~

- SALE-LEASEBACK TRANSACTIONS, PSG-5

2 This Guideline applies to government financial statements applying FINANCIAL STATEMENT PRESENTATION, Section PS 1202 ~~1201~~.

…

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).

…

~~56 This Guideline applies to local governments that have adopted FINANCIAL STATEMENT PRESENTATION, PS 1201.~~

In LEASED TANGIBLE CAPITAL ASSETS, paragraph PSG-2.31, FUNDS AND RESERVES, paragraph PSG-4.12, and SALE-LEASEBACK TRANSACTIONS, paragraph PSG-5.56, are proposed to be deleted as the paragraphs are out of date. The transitional provisions in these paragraphs date from when local governments were first adopting a full accrual reporting model. The provisions originally referenced FINANCIAL STATEMENT PRESENTATION, former Section PS 1200, which was effective for fiscal years beginning on or after January 1, 2009. When PSAB amended the reporting model to present fair value remeasurements of financial instruments carried at fair value and issued Section PS 1201 to replace Section PS 1200 (2011), these paragraphs should have been deleted, rather than adjusting the reference from Section PS 1200 to Section PS 1201. PSG-2, PSG-4 and PSG-5 apply to local governments as they do to other public sector entities and have done so since local governments adopted Section PS 1200. The changes to the reporting model in Section PS 1201 to present fair value remeasurements of financial instruments carried at fair value are effective for all governments, including local governments, for fiscal years beginning on or after April 1, 2022. This is the effective date for governments adopting the financial instrument suite of standards: Sections PS 3450, PS 2601 and PS 1201.

In LOANS RECEIVABLE, paragraph PS 3050.44, note 4 is proposed to be deleted as it is not needed to understand the paragraph.

~~4. See FINANCIAL STATEMENT PRESENTATION, paragraph PS 1200.077.~~

Acknowledging multiple components of net assets or net liabilities

ACCOUNTING CHANGES, Section PS 2120, provides guidance on how to apply and disclose a change in accounting policy. Retroactive application of a change in accounting policy (with or without restatement of prior periods) requires adjustment to the opening balance of accumulated surplus or deficit. Since proposed Section PS 1202 outlines two further components of net assets or net liabilities (accumulated remeasurement gains and losses and accumulated other), consequential amendments are proposed to Section PS 2120 to include consideration of adjustments to the opening balance of these other components as appropriate.

.06 Various treatments have been advocated to deal with a change in an accounting policy, including the following:

…

(b) Retroactive application with no restatement of prior periods. The new accounting policy is applied to events and transactions from the date of origin of such items and a cumulative adjustment representing the effect of the change in an accounting policy on prior periods is made in the period in which the change is made. Two different treatments of the cumulative adjustment have been followed: an item reflected in the operating results or an adjustment of the opening balance of the accumulated surplus/deficit or any applicable component of net assets or net liabilities.

(c) Retroactive application with restatement of prior periods. The new accounting policy is applied to events and transactions from the date of origin of such items. The financial statements for each prior period presented for comparative purposes are restated to reflect the new policy. The balance of the accumulated surplus/deficit or any other applicable component of net assets or net liabilities at the beginning of the earliest period presented is restated to reflect the cumulative effect of the change on periods prior to that date.

…

.15 In some circumstances, while the total cumulative effect of a change in an accounting policy on prior periods can be determined, the effect with respect to specific prior periods may not be reasonably determinable. In such cases, the retroactive effect of the change in the accounting policy is accounted for as a cumulative adjustment of the opening balance of the accumulated surplus/deficit or any other applicable component of net assets or net liabilities of the period in which the change is made.

…

.17 *When a change in an accounting policy is applied retroactively, the financial statements of all prior periods presented for comparative purposes should be restated to give effect to the new accounting policy, except in those circumstances when the effect of the new accounting policy is not reasonably determinable for individual prior periods. In such circumstances, an adjustment should be made to the opening balance of the accumulated surplus/deficit or any other applicable component of net assets or net liabilities of the current period, or such earlier period as is appropriate, to reflect the cumulative effect of the change on prior periods.* [~~SEPT. 1997~~APRIL 2024]

.17A Determining the component(s) of net assets or net liabilities for which the opening balance would be adjusted for a change in accounting policy may be complex. The component(s) of net assets or net liabilities affected would depend on:

(a) whether the change in the accounting policy affects a revenue or expense recognized outside of surplus or deficit in the period the revenue or expense arose (i.e., in accumulated remeasurement gains and losses or in accumulated other); and

(b) whether all or part of the revenue or expense that is affected by the change in accounting policy that was initially recognized in a component of net assets or net liabilities other than accumulated surplus/deficit remains in accumulated remeasurement gains and losses or accumulated other at the beginning of the accounting period.

All or part of a revenue or expense initially recognized directly in accumulated remeasurement gains and losses or accumulated other may have subsequently been reclassified to the surplus or deficit of subsequent periods. In such cases, if all such amounts have been subsequently reclassified, the change in accounting policy may require adjustment of the opening balance of accumulated surplus/deficit alone. If only part of the revenue or expense initially recognized directly in accumulated remeasurement gains and losses or accumulated other has been reclassified to the surplus or deficit of subsequent periods, then an adjustment would be required of the opening balance of accumulated surplus and deficit and the opening balance of the relevant further component of net assets or net liabilities. If none of the revenue or expense initially recognized directly in accumulated remeasurement gains and losses or accumulated other has been reclassified to surplus or deficit, then an adjustment would be required to the opening balance of the relevant component, accumulated remeasurement gains or losses or accumulated other.

...

.33 The financial statements, including the comparative information for prior periods, are presented as if the error had been corrected in the period in which it was made. Therefore, the amount of the correction that relates to each period presented is included in the restated results for that period. The amount of the correction relating to periods prior to those included in the comparative information in the financial statements is adjusted retroactively. Any other information reported with respect to prior periods, such as historical summaries of financial data, is also restated. Depending on the nature of the error and how it was initially recognized, similar to the guidance in paragraph PS 2120.17A, an adjustment may be required to the opening balance of accumulated surplus or deficit and/or the relevant component, accumulated remeasurement gains or losses or accumulated other.

Similarly, consequential amendments are being proposed to ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, to include consideration of the various components of net assets or net liabilities:

.06 Using the proportionate consolidation method results in the government recognizing the following:

…

(b) Its proportionate share of the assets, liabilities and accumulated surplus/deficit of the governmental unit or any other applicable component of net assets or net liabilities, adjusted in accordance with (a). The government's consolidated statement of financial position would include these items on a line-by-line basis, after elimination of the government's proportionate share of inter-governmental unit balances in accordance with BASIC PRINCIPLES OF CONSOLIDATION, paragraphs PS 2500.08-.18.

…

.07 In this manner, the non-controlling interest in the assets, liabilities, accumulated surplus/deficit or any other applicable component of net assets or net liabilities, revenues and expenses of the governmental unit is excluded from the financial statements.

Amending references to "net debt" and "change in net debt"

Proposed Section PS 1202 introduces the term "net financial liabilities" as a replacement for "net debt". As a result, consequential amendments are being proposed to paragraph PS 3450.A69 and the illustrative example in Appendix B of PSG-5 to replace "net debt" with "net financial assets or net financial liabilities".

- FINANCIAL INSTRUMENTS, Section PS 3450

A69 In determining what a reasonably possible change in the relevant risk variable requires that consideration be given to the factors listed below:

(a) A government considers the economic environments in which it operates. A reasonably possible change does not involve remote or "worst case" scenarios or "stress tests". Moreover, if the rate of change in the underlying risk variable is stable, a government need not alter the chosen reasonably possible change in the risk variable. For example, assume that interest rates are five percent and a government determines that a fluctuation in interest rates of ±50 basis points is reasonably possible. It would disclose the effect on operating surplus or deficit for the period and net financial assets or net financial liabilities ~~debt~~ if interest rates were to change to 4.5 percent or 5.5 percent. In the next period, interest rates have increased to 5.5 percent. It continues to believe that interest rates may fluctuate by ±50 basis points (i.e., that the rate of change in interest rates is stable). A government would disclose the effect on operating surplus or deficit for the period and net financial assets or net financial liabilities ~~debt~~ if interest rates were to change to five percent or six percent. A government would not be required to revise its assessment that interest rates might reasonably fluctuate by ±50 basis points, unless there is evidence that interest rates have become significantly more volatile.

- SALE-LEASEBACK TRANSACTIONS, PSG-5

  APPENDIX B

  Illustrative Examples

  …

  In reviewing the examples, it will be helpful to consider the following:

  …

  (c) In the statement of financial position, the impact on the accumulated surplus or deficit may not be the same as the impact on net financial assets or net financial liabilities ~~net debt~~.

Other related consequential amendments include the following:

- FUNDS AND RESERVES, PSG-4

9 FINANCIAL STATEMENT PRESENTATION, paragraph PS 1202.044 ~~1201.040~~, establishes that the statement of financial position accounts for net assets or net liabilities as the indicator of net financial position ~~reports net debt and the accumulated surplus/deficit as the two indicators that together explain the financial position at the financial statement date. The accumulated surplus/deficit is the residual amount of the statement of financial position.~~ An entity's net financial position is a residual amount, calculated as the difference between an entity's assets and its liabilities.

Proposed Section PS 1202 has removed the requirement to present the statement of change in net debt. As a result, the following consequential amendment is being proposed to Section PS 2120:

.34 *When there has been a correction in the current period of an error in prior period financial statements, the following information should be disclosed:*

(a) *a description of the error;*

(b) *the effect of the correction of the error on the financial statements of the current and prior periods; and*

(c) *the fact that the financial statements of prior periods that are presented have been restated.* [~~SEPT. 1997~~]

Depending on the nature of the error, it may be appropriate to disclose the effect of its correction on significant items ~~such as the change in net debt~~.[1] [APRIL 2024]

Note 1: For example, it may be appropriate to disclose the effect of the correction on net financial assets or net financial liabilities.

Amending references to "statement of remeasurement gains and losses"

Proposed Section PS 1202 introduces the statement of changes in net assets or net liabilities. This statement shows a reconciliation of the accumulated remeasurement gains and losses component of net assets or net liabilities. This reconciliation would present similar information about remeasurement gains and losses required in the existing statement of remeasurement gains and losses. As a result, references to the "statement of remeasurement gains and losses" are proposed to be replaced with "statement of changes in net assets or net liabilities" or "statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component".

In the following Sections, "statement of remeasurement gains and losses" is proposed to be replaced with "statement of changes in net assets or net liabilities":

- BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500

.07 The basic steps of consolidation required by paragraph PS 2500.06 are as follows:

…

(c) The revenues and expenses of the governmental units, after being adjusted in accordance with (a), are added together and the current and the most recent prior period aggregated amounts would be reported on the consolidated statement of operations and the consolidated statement of changes in net assets or net liabilities ~~remeasurement gains and losses~~.

- ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510

.06 Using the proportionate consolidation method results in the government recognizing the following:

…

(c) Its proportionate share of the revenues or expenses and operating results of the governmental unit, adjusted in accordance with (a). The government's consolidated statement of operations and consolidated statement of changes in net assets or net liabilities ~~remeasurement gains and losses~~ would include these items on a line-by-line basis, after elimination of the government's proportionate share of inter-governmental unit transactions in accordance with BASIC PRINCIPLES OF CONSOLIDATION, paragraphs PS 2500.08-.18.

…

.43 In most cases, the change in status of a governmental unit to a government business enterprise will not be an observable event. The change may occur over time and, therefore, most governments would assess the status of their government organizations only at year end when the financial statements are being prepared. In such circumstances, it is acceptable for a government to account for the organization as a government business enterprise for the whole period in which the change in status is identified. When the change is the result of an observable event, however, a government would apply both consolidation and modified equity accounting to the organization in the period, as appropriate, in accordance with paragraph PS 2510.42. Similarly, if the government creates a government business enterprise from the existing resources of a governmental unit during the period, the consolidated statement of operations and the consolidated statement of changes in net assets or net liabilities ~~remeasurement gains and losses~~ would only report income and other comprehensive income from the government business enterprise subsequent to the date of its creation.

- INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070

.69 *When a government acquires a government business enterprise, the following should be disclosed:*

…

(a) *the date of acquisition and the period for which the results of the acquired government business enterprise are included in the consolidated statement of operations and the consolidated statement of changes in net assets or net liabilities ~~remeasurement gains and losses~~;*

…

(e) *a description of the nature of the purchase premium, how the useful life of the purchase premium was determined and the method of amortization.* ~~[APRIL 2012]~~[APRIL 2024]

- FINANCIAL INSTRUMENTS, Section PS 3450 (the heading "Statement of remeasurement gains and losses" above paragraph PS 3450.076)

Statement of changes in net assets or net liabilities ~~remeasurement gains and losses~~

In the following Sections, "statement of remeasurement gains and losses" is proposed to be replaced with "statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component":

- BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500

.16A Operating gains and losses associated with inter-governmental unit sales or transfers of financial instrument assets and financial instrument liabilities in the fair value category require elimination. When the related instrument is still held within the consolidated entity, an adjustment is required to eliminate a gain or loss as it is unrealized. To accomplish this, the gain or loss is reclassified from the consolidated statement of operations and presented on the consolidated statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.

- ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510

.42 When the nature of a governmental unit changes so that it meets the definition of a government business enterprise, the organization would be accounted for as a government business enterprise by the modified equity method in accordance with GOVERNMENT REPORTING ENTITY, Section PS 1300. Accordingly:

…

(b) the individual revenues and expenses of the organization would be included with those of the other governmental units and recognized in the consolidated statement of operations and the consolidated statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component up until the date the status of the organization changed. From that date forward, the net income and other comprehensive income of the government business enterprise would be recorded in accordance with the modified equity method.

- FOREIGN CURRENCY TRANSLATION, Section PS 2601

.08 The statement of operations reports revenues and expenses denominated in a foreign currency at a rate that approximates the exchange rate on the date of the transaction. Consequently, until a financial instrument included in the fair value category is derecognized, any gain or loss due to remeasurement is recognized in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.[1]

---

[1] The Exposure Draft, "Financial Instruments: Foreign Exchange Narrow-scope Amendments," amends paragraph PS 2601.08 as follows:

> The statement of operations reports revenues and expenses denominated in a foreign currency at a rate that approximates the exchange rate on the date of the transaction as well as the exchange gains and losses recognized in accordance with the election in paragraph PS 2601.19A. Consequently, until a financial instrument included in the fair value category is derecognized, any gain or loss due to remeasurement is recognized in the statement of remeasurement gains and losses~~.~~, except when the election in paragraph PS 2601.19A is made.

…

.18 *An exchange gain or loss that arises prior to settlement is recognized in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.* [~~APRIL 1, 2019 *~~ APRIL 2024][2]

…

.22 *A government should disclose the exchange gains and losses recognized in the statement of operations and the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.* [~~APRIL 1, 2019 *~~ APRIL 2024]

- PORTFOLIO INVESTMENTS, Section PS 3041

.07 *When there has been a loss in value of a portfolio investment that is other than a temporary decline, the investment should be written down to recognize the loss. The write-down should be included in the statement of operations. In the case of an item in the fair value category, a reversal of any net remeasurements should be reported in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.* [~~APRIL 2012 *~~ APRIL 2024]

- INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070

.08A The government's proportionate share of the government business enterprise's other comprehensive income is reported in the statement of changes in net assets or net liabilities in the remeasurement gains and losses component.

…

.58A *Other comprehensive income from investments in government business enterprises should be reported separately on the consolidated statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.* [~~APRIL 2012~~ APRIL 2024]

No additional consequential amendments are required to text proposed to be amended by the financial instruments Exposure Draft, as a result of proposed Section PS 1202.

[2] The Exposure Draft, "Financial Instruments: Foreign Exchange Narrow-scope Amendments," amends paragraph PS 2601.18 as follows: *"Except when the election in paragraph PS 2601.19A is made, ~~A~~an exchange gain or loss that arises prior to settlement is recognized in the statement of remeasurement gains and losses.* [APRIL 1, 2022~~19~~ *]" No additional consequential amendments are required to the text proposed to be amended by the financial instruments Exposure Draft, as a result of proposed Section PS 1202, except the dates in the brackets will reflect 2024 rather than 2022.

…

.59 A significant factor in evaluating income from investments in government business enterprises is the relationship of the income reported to the investments from which such income is derived. For this reason, investments in government business enterprises reported in the consolidated statement of financial position, income from investments in government business enterprises reported in the consolidated statement of operations and other comprehensive income reported in the consolidated statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component are reported as separate line items.

- FINANCIAL INSTRUMENTS, Section PS 3450

.052 A government distinguishes remeasurement gains and losses from those revenues and expenses that are not remeasurement gains and losses. This distinction is achieved by recognizing remeasurement gains and losses in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.[3]

.053 *A change in the fair value of a financial instrument in the fair value category should be recognized in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component as a remeasurement gain or loss until the financial instrument is derecognized.* [~~APRIL 1, 2019 *~~ APRIL 2024][4]

[3] The Exposure Draft, "Financial Instruments: Foreign Exchange Narrow-scope Amendments," amends paragraph PS 3450.052 as follows:

> A government distinguishes remeasurement gains and losses from those revenues and expenses that are not remeasurement gains and losses. This distinction is achieved as ~~by recognizing~~ remeasurement gains and losses are recognized in the statement of remeasurement gains and losses.

No additional consequential amendments are required to the text proposed to be amended by the financial instruments Exposure Draft, as a result of proposed Section PS 1202.

[4] The Exposure Draft, "Financial Instruments: Foreign Exchange Narrow-scope Amendments," amends paragraph PS 3450.053 as follows:

> *Except for the exchange gain or loss component of the change in fair value when the election in FOREIGN CURRENCY TRANSLATION, paragraph PS 2601.19A is made, ~~A~~a change in the fair value of a financial instrument in the fair value category should be recognized in the statement of remeasurement gains and losses as a remeasurement gain or loss until the financial instrument is derecognized.* [APRIL 1, 2022~~19~~ *]

…

.055 By presenting remeasurement gains and losses separately, changes in the carrying value of financial instruments arising from fair value measurement are distinguished from revenues and expenses reported in the statement of operations. The statement of operations reports the extent to which revenues raised in the period were sufficient to meet the expenses incurred. Remeasurement gains and losses attributable to financial instruments in the fair value category do not affect this assessment as they are recognized in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component. ~~Taken together, the two statements account for changes in a government's net liabilities (or net assets) in the period.~~[5]

…

.082 For fair value measurements recognized in the statement of financial position, a government discloses the following for each class of financial instruments.

…

(c) For fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

No additional consequential amendments are required to the text proposed to be amended by the financial instruments Exposure Draft, as a result of proposed Section PS 1202, except the dates in the brackets will reflect 2024 rather than 2022.

[5] The Exposure Draft, "Financial Instruments: Foreign Exchange Narrow-scope Amendments," amends paragraph PS 3450.055 as follows:

> By presenting remeasurement gains and losses separately, except when the election in FOREIGN CURRENCY TRANSLATION, paragraph PS 2601.19A is made, changes in the carrying value of financial instruments arising from fair value measurement are distinguished from revenues and expenses reported in the statement of operations. The statement of operations reports the extent to which revenues raised in the period were sufficient to meet the expenses incurred. Remeasurement gains and losses attributable to financial instruments in the fair value category do not affect this assessment as they are recognized in the statement of remeasurement gains and losses. Taken together, the two statements account for changes in a government's net liabilities (or net assets) in the period.

No additional consequential amendments are required to the text proposed to be amended by the financial instruments Exposure Draft, as a result of proposed Section PS 1202.

(i) total gains or losses for the period recognized in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component;[6]

...

A46 In the period a government derecognizes financial instruments in the fair value category upon which remeasurement gains and losses were reported in preceding periods, it reports an adjustment to reverse the cumulative remeasurement gain or loss within the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.

The Exposure Draft, "Financial Instruments: Foreign Exchange Narrow-scope Amendments," proposes changes to the definition of "remeasurement gains and losses" in paragraph PS 2601.03(h) and the glossary of Section PS 3450. If PSAB approves these narrow-scope amendments for the final standard, the following amendments are proposed to the definition as a result of proposed Section PS 1202:

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

…

(h) **Remeasurement gains and losses** encompass revenues and expenses that are recognized in the statement of changes in net assets or net liabilities in the remeasurement gains and losses component arising:

(i) when prior to an item's settlement an **exchange gain or loss** is recognized in accordance with the provisions of this Section; and

(ii) when financial instruments in the fair value category are remeasured in accordance with FINANCIAL INSTRUMENTS, Section PS 3450.

---

[6] The Exposure Draft, "Financial Instruments: Foreign Exchange Narrow-scope Amendments," amends paragraph PS 3450.082 as follows:

For fair value measurements recognized in the statement of financial position, a government discloses the following for each class of financial instruments.

…

(c) For fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period recognized in the statement of remeasurement gains and losses and/or statement of operations;

No additional consequential amendments are required to the text proposed to be amended by the financial instruments Exposure Draft, as a result of proposed Section PS 1202.

Remeasurement gains and losses do not include exchange gains and losses, including the exchange gain or loss component of changes in fair value, which have been recognized directly in the statement of operations.

Glossary of Section PS 3450

Remeasurement gains and losses are revenues and expenses recognized in the statement of <u>changes in net assets or net liabilities in the</u> remeasurement gains and losses <u>component</u> arising:

(a) when, prior to an item's settlement, an exchange gain or loss is recognized in accordance with the provisions of FOREIGN CURRENCY TRANSLATION, Section PS 2601; and

(b) when financial instruments in the fair value category are remeasured in accordance with the requirements of this Section.

Remeasurement gains and losses do not include exchange gains and losses, including the exchange gain or loss component of changes in fair value, which have been recognized directly in the statement of operations.

The following paragraphs are in existing Section PS 1201 (see refences in parentheses). Since the paragraphs are specific to presenting remeasurement gains and losses relating to financial instruments, PSAB felt that it was more appropriate to relocate them to Section PS 3450.

.077A (PS 1201.093) A government ~~discloses~~ <u>presents</u> the amounts of remeasurement gains and losses reported in the statement of <u>changes in net assets or net liabilities in the accumulated</u> remeasurement gains and losses <u>component</u> during the period, distinguishing between:

(a) exchange gains and losses on items in the amortized cost category denominated in a foreign currency; and

(b) changes in the fair value of:

(i) derivatives;

(ii) portfolio investments in equity instruments that are quoted in an active market; and

(iii) financial instruments designated to the fair value category.

.077B (PS1201.094) When an item designated to the fair value category is denominated in a foreign currency, there is no separate disclosure of the exchange gain or loss.

The Exposure Draft, "<u>Financial Instruments: Foreign Exchange Narrow-scope Amendments</u>," proposes adding a new paragraph to paragraph PS 1201.094A to accompany the above noted paragraphs. If PSAB approves the narrow-scope amendments for Sections PS 1201, PS 2601 and

PS 3450, then paragraph PS 1201.094A would be relocated and included as a consequential amendment to Section PS 3450 to accompany the above noted paragraphs.

Consequential amendments are proposed to the illustration to paragraph PS 3450.A47 in Appendix A. The proposed amendments would make them consistent with the illustrative financial statements in proposed Section PS 1202 in relation to the statement of changes in net assets or net liabilities and presenting the reconciliation of remeasurement gains and losses.

A47 For example, a government has a fiscal period end of December 31. On April 15, 20X1, it makes a portfolio investment in the stock of a publicly traded company listed on a major stock exchange. The purchase price, excluding the commissions it expensed, is $100,000. The closing quoted market price for the investment at December 31, 20X1 is $125,000. On October 31, 20X2 it sells the stock for proceeds of $115,000. The amounts included in the statement of operations and statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component are set out below.

Statement of Operations

For the year ended December 31 ($ thousands)	20X2	20X2	20X1
Revenues	Budget	Actual	Actual
Gain on portfolio investment	5	15	–
Expenses	–	–	–
~~Operating~~ Surplus	5	15	–
~~Accumulated operating surplus, beginning of year~~	-	~~–~~	~~–~~
~~Accumulated operating surplus, end of year~~	-	~~15~~	~~–~~
-	-	~~==~~	~~==~~

Statement of Changes in Net Assets or Net Liabilities ~~Remeasurement Gains and Losses~~

For the year ended December 31 ($ thousands)	20X2	20X1
Accumulated surplus		
Accumulated surplus, beginning of year	–	–
Surplus	15	–
Accumulated surplus, end of year	15	–
Accumulated remeasurement gains and losses		
Accumulated remeasurement gains and losses, beginning of year	25	–

Unrealized gain/(loss) on portfolio investment	(10)	25
Realized gain on portfolio investment, reclassified to operations	(15)	–
Accumulated remeasurement gains and losses, end of year	–	25
	===	==

The following consequential amendments are proposed to Section PS 2601, in relation to references to the statement of remeasurement gains and losses:

.19 *In the period of settlement:*

(a) the cumulative amount of remeasurement gains and losses is reversed ~~in~~ from the ~~statement of~~ accumulated remeasurement gains and losses component of net assets or net liabilities on the statement of changes in net assets or net liabilities; and

(b) an exchange gain or loss measured in relation to the exchange rate at the date of the item's initial recognition is recognized in the statement of operations. [~~APRIL 1, 2019~~ APRIL 2024]*[7]

Lastly, PSAB concluded that the statement of remeasurement gains and losses would be a required statement for those government not-for-profit organizations (GNFPOs) applying the PS 4200 series of the PSA Handbook. Section PS 4200 requires the statement of changes in net assets. However, this statement outlines the presentation of a different breakdown of net assets than that required from the statement of changes in net assets or net liabilities in proposed Section PS 1202. As a result, to present the remeasurement gains and losses in the accumulated remeasurement gains and losses component of net assets, GNFPOs will need to present a statement of remeasurement gains and losses. The following consequential amendments are proposed to the respective Sections to provide guidance in relation to the statement of remeasurement gains and losses:

[7] The Exposure Draft, "Financial Instruments: Foreign Exchange Narrow-scope Amendments," amends paragraph PS 2601.19 as follows:

"Except when the election in paragraph PS 2601.19A is made, ~~I~~in the period of settlement:

(a) the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses; and

(b) an exchange gain or loss measured in relation to the exchange rate at the date of the item's initial recognition is recognized in the statement of operations. [APRIL 1, 2022~~19~~ *]

However, no additional consequential amendments are required on the parts that are proposed to be amended by the Exposure Draft, as a result of amendments to proposed Section PS 1202, except the dates in the brackets will reflect 2024 rather than 2022.

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

.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
…			
PS 1202 ~~PS 1201~~, FINANCIAL STATEMENT PRESENTATION	X[3]		

Note 3: Section PS 1202 ~~1201~~ applies for preparing the statement of cash flows and ~~statement~~ the reconciliation of the accumulated remeasurement gains and losses in the statement of remeasurement gains and losses. Although the statement of remeasurement gains and losses is not a required statement in Section PS 1202, it would be a required statement for government not-for-profit organizations as the reconciliation of accumulated remeasurement gains and losses cannot be done on the statement of changes in net assets described in Section PS 4200. The statement of remeasurement gains and losses would present the reconciliation of accumulated remeasurement gains and losses as outlined in paragraph PS 1202.140. Section PS 4200 applies for the remaining financial statements.

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

Paragraph PS 4200.05(c), note 1: FOREIGN CURRENCY TRANSLATION, Section PS 2601, and FINANCIAL INSTRUMENTS, Section PS 3450, may require an organization to present a statement of changes in net assets or net liabilities to show the reconciliation of accumulated remeasurement gains and losses or items reflected in this component of net assets or net liabilities. For government not-for-profit organizations applying the PS 4200 series, the requirement is to show the reconciliation on the statement of remeasurement gains and losses. Although the statement of remeasurement gains and losses is not a required statement in Section PS 1202, it would be a required statement for government not-for-profit organizations applying the PS 4200 series. This is because the reconciliation of accumulated remeasurement gains and losses cannot be done on the statement of changes in net assets described in Section PS 4200. The statement of remeasurement gains and losses would present the reconciliation of accumulated remeasurement gains and losses as outlined in paragraph PS 1202.140.

Introducing "financial instrument assets" and "financial instrument liabilities"

The Basis for Conclusions for Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202," alludes to the fact that endowments could be classified as non-financial assets. However, endowment contributions are often invested. As a result, one implication of this proposal is that it would make the application of Section PS 3450 difficult for endowment contributions invested, as Section PS 3450 applies to financial assets. To resolve this issue, PSAB is proposing consequential amendments to Section PS 3450 to refer to those assets and liabilities that are financial instruments as "financial instrument assets" and "financial instrument liabilities". This allows for the possibility that endowment investments restricted in perpetuity could be recognized and measured as financial instrument assets in accordance with Section PS 3450 but presented as non-financial assets in the statement of financial position. The following paragraphs would be amended to replace "financial assets" with "financial instrument assets" and "financial liabilities" with "financial instrument liabilities":

.009 A contract establishing a financial instrument creates, at its inception, rights and obligations to receive or deliver economic benefits. The **financial instrument assets** and **financial instrument liabilities** portray these rights and obligations in financial statements. The assessment of those benefits is a measurement question and does not affect the timing of **recognition**. Recognition occurs when a government becomes a party to a financial instrument or non-financial derivative contract.

.010 From inception, derivative financial instruments give one party the contractual right to exchange financial instrument assets or financial instrument liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial instrument assets or financial instrument liabilities with another party under conditions that are potentially unfavourable. Derivatives create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument (see paragraph PS 3450.A17).

.011 *A government should recognize a financial instrument asset or a financial instrument liability on its statement of financial position when, and only when, a government becomes a party to the contractual provisions of the instrument.* [~~APRIL 1, 2019 *~~ APRIL 2024]

…

.022 When governments manage and report performance for groups of financial instrument assets, financial instrument liabilities or both on a fair value basis, they may wish to report these items on this basis in their financial statements. Also, when reporting on a contract with the features of a derivative embedded in its terms (a contract with an "embedded derivative"), a government may determine that it is practical to designate the entire contract for fair value measurement rather than separately accounting for its derivative features. In each case, measuring items at fair value is seen to enhance the decision usefulness of the information provided to those using financial statements. For these reasons, the option to measure these items at fair value is provided.

.023 *A government that defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial instrument assets, financial instrument liabilities or both on a fair value basis, may include those items that are within the scope of this Section in the fair value category.* [~~APRIL 1, 2019 *~~ APRIL 2024]

.024 Classification of a group of financial instrument assets, financial instrument liabilities or both to the fair value category is an accounting policy decision. A government defines and discloses the characteristics of financial instruments in the class and discloses this information in accordance with DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100. The policy determines the categorization of financial instrument assets and financial instrument liabilities upon their initial recognition.

…

.029 The fair value of a financial instrument liability with a demand feature (for example, a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Transaction costs

.030 Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial instrument asset or a financial instrument liability. An incremental cost is one that would not have been incurred if a government had not acquired or issued the financial instrument.

…

Impairment of financial instrument assets

.034 At each financial statement date, a government assesses financial instrument assets or groups of financial instrument assets to determine whether there is any objective evidence of impairment. If any such evidence exists, a government would apply:

…

.035 The requirement to assess financial instrument assets for impairment includes non-derivative financial instrument assets in the fair value category. Impairment charges are indicative of a loss in value that reflects the expectation that the underlying economic resource has diminished in a manner that is other than temporary.

…

.037 The classification of financial instruments is determined upon its initial recognition. When financial instrument assets and financial instrument liabilities are included in the fair value category pursuant to paragraph PS 3450.023, they are not reclassified for the duration of the period they are held and, consequently, the requirements in paragraphs PS 3450.038-.041 do not apply to these items.

…

DERECOGNITION OF A FINANCIAL INSTRUMENT LIABILITY

.042 *A government should remove a financial instrument liability (or part of a financial instrument liability) from its statement of financial position when, and only when, it is extinguished (i.e., when the obligation specified in the contract is discharged or cancelled, or expires).* [~~APRIL 1, 2019 *~~ APRIL 2024]

.043 A financial instrument liability (or part of a financial instrument liability) is extinguished when the debtor either:

(a) discharges the liability (or part of it) by paying the creditor, normally with cash, other financial instrument assets, goods or services; or

…

.048 *An exchange between an existing borrower and lender of debt instruments with substantially different terms should be accounted for as an extinguishment of the* *original financial instrument liability and the recognition of a new financial instrument liability. Similarly, a substantial modification of the terms of an existing financial instrument liability or part of it (whether or not attributable to the financial difficulty of the debtor) should be accounted for as an extinguishment of the original financial instrument liability and the recognition of a new financial instrument liability.* [~~APRIL 1, 2019 *~~ APRIL 2024].

.049 For the purpose of paragraph PS 3450.048, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial instrument liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

.050 *The difference between the carrying amount of a financial instrument liability (or part of a financial instrument liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, should be recognized as a revenue or expense in the statement of operations.* [~~APRIL 1, 2019 *~~ APRIL 2024]

.051 *If a government extinguishes a part of a financial instrument liability, it should allocate the previous carrying amount of the financial instrument liability between the part that continues to be outstanding and the extinguished amount based on the relative fair values of those parts on the date of the extinguishment. The difference between the carrying amount allocated to the part extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, should be recognized as a revenue or expense in the statement of operations*. [~~APRIL 1, 2021~~ APRIL 2024][Former paragraph PS 3450.051 retained in Archived Pronouncements.]

…

.053A *A change in fair value of a financial instrument asset in the fair value category that is externally restricted should be accounted for in accordance with RESTRICTED ASSETS AND REVENUES, paragraphs PS 3100.11-.12.* [~~APRIL 1, 2019 *~~ APRIL 2024]

…

Offsetting of a financial instrument asset and a financial instrument liability

.059 *A financial instrument asset and a financial instrument liability should be offset and the net amount reported in the statement of financial position when, and only when, a government:*

(a) currently has a legally enforceable right to set off the recognized amounts; and

(b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. *[~~APRIL 1, 2019 *~~ APRIL 2024]*

.060 Financial instrument assets and financial instrument liabilities are presented on a net basis when doing so reflects a government's expected future cash flows from settling two or more separate financial instruments. When a government has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial instrument asset or financial instrument liability. In other circumstances, financial instrument assets and financial instrument liabilities are presented separately from each other consistent with their characteristics as resources or obligations of a government.

.061 Offsetting a recognized financial instrument asset and a recognized financial instrument liability and presenting the net amount differs from derecognition of a financial instrument asset or a financial instrument liability. Unlike derecognition, offsetting does not give rise to a gain or loss. When the conditions in paragraph PS 3450.059 are satisfied, a government has, in effect, a single cash flow and a single financial instrument asset or financial instrument liability.

…

.063 The existence of an enforceable right to set off a financial instrument asset and a financial instrument liability affects the rights and obligations associated with a financial instrument asset and a financial instrument liability and may affect a government's exposure to credit and **liquidity risk**. However, the existence of the right, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the right or to settle simultaneously, the amount and timing of a government's future cash flows are not affected. When a government intends to exercise the right or to settle simultaneously, presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed. An intention by one or both parties to settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial instrument asset and financial instrument liability remain unaltered.

…

.065 Simultaneous settlement of two financial instruments may occur through, for example, the operation of a clearing house in an organized financial market or a face-to-face exchange. In these circumstances, the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk. In other circumstances, a government may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. Such risk exposures may be significant even though relatively brief. Accordingly, realization of a financial instrument asset and settlement of a financial instrument liability are treated as simultaneous only when the transactions occur at the same moment.

.066 The conditions set out in paragraph PS 3450.059 are generally not satisfied and offsetting is usually inappropriate when:

…

(b) financial instrument assets and financial instrument liabilities arise from financial instruments having the same primary risk exposure (for example, assets and liabilities within a portfolio of forward contracts or other derivative instruments) but involve different counterparties;

(c) financial or other assets are pledged as collateral for non-recourse financial instrument liabilities;

(d) financial instrument assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in settlement of the obligation (for example, a sinking fund arrangement); or

(e) obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.

.067 A government that undertakes a number of financial instrument transactions with a single counterparty may enter into a "master netting arrangement" with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These arrangements are commonly used by financial institutions to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realization or settlement of individual financial <u>instrument</u> assets and financial <u>instrument</u> liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of operations. A master netting arrangement does not provide a basis for offsetting, unless both of the criteria in paragraph PS 3450.059 are satisfied. When financial <u>instrument</u> assets and financial <u>instrument</u> liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on a government's exposure to credit risk is disclosed in accordance with paragraph PS 3450.090.

Repurchased debt instruments

.067A When a government repurchases its own debt instrument in accordance with paragraph PS 3450.044, the repurchased instrument and the original financial <u>instrument</u> liability should be offset in the statement of financial position of the government reporting entity. Similarly, any interest revenue and interest expense associated with this repurchased debt instrument should be offset in the statement of operations. Disclosures of the amounts that have been offset should be included in the notes to the financial statements in accordance with LONG-TERM DEBT, paragraph PS 3230.22.

…

Statement of financial position

.070 The carrying amounts of financial <u>instrument</u> assets of each of the following categories are disclosed either in the statement of financial position or in the notes:

(a) cost or amortized cost;

(b) fair value, showing separately:

(i) derivatives;

(ii) portfolio investments in equity instruments that are quoted in an active market; and

(iii) financial <u>instrument</u> assets designated to the fair value category.

.071 The carrying amounts of financial <u>instrument</u> liabilities of each of the following categories are disclosed either in the statement of financial position or in the notes:

(a) cost or amortized cost;

(b) fair value, showing separately:

(i) derivatives; and

(ii) financial instrument liabilities designated to the fair value category.

…

Collateral

.073 A government discloses:

(a) the carrying value of financial instrument assets it has pledged as collateral for liabilities or contingent liabilities; and

(b) the terms and conditions relating to its pledge.

…

.080 A government holding derivatives or items it has designated to the fair value category at the financial statement date discloses the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial instrument assets or financial instrument liabilities. For example, if applicable, a government discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, a government discloses that change and the reasons for making it.

…

.084 Disclosure of fair values for financial instrument assets and financial instrument liabilities in the cost or amortized cost measurement category is not required except when a government discloses the quoted market value as well as the carrying value of portfolio investments.

…

Financial instrument assets that are either past due or impaired

.091 A government discloses, by class of financial instrument asset:

(a) an analysis of the age of financial instrument assets that are past due as at the financial statement date but not impaired; and

(b) an analysis of financial instrument assets that are individually determined to be impaired as at the financial statement date, including the factors the government considered in determining that they are impaired.

…

Liquidity risk

.093 A government discloses:

(a) a maturity analysis for non-derivative financial instrument liabilities that shows the remaining contractual maturities;

(b) a maturity analysis for derivative financial instrument liabilities; and

(c) a description of how it manages the liquidity risk inherent in (a) and (b).

The maturity analysis in (b) includes the remaining contractual maturities for those derivative financial instrument liabilities for which contractual maturities are essential for an understanding of the timing of cash flows.

…

.099 The transition to this Section is as follows:

…

(b) At the beginning of the fiscal year in which this Section is initially applied:

(i) A government or government organization recognizes all financial instrument assets and financial instrument liabilities on its statement of financial position and classifies items in accordance with paragraph PS 3450.015.

(ii) A government or government organization applies the criteria in paragraphs PS 3450.020 and PS 3450.023 in identifying those financial instrument assets and financial instrument liabilities to be measured at fair value. The entity applies the measurement provisions of this Section prospectively. The difference between a financial instrument's fair value and its previous carrying amount is recognized as an adjustment to the accumulated remeasurement gains and losses at the beginning of the fiscal year in which this Section is initially applied.

…

(e) Any unamortized discount, premium, or transaction costs associated with a financial instrument asset or financial instrument liability measured at amortized cost is included in the item's opening carrying value.

…

.099A Paragraphs PS 3450.053A and PS 3450.057A apply to fiscal years beginning on or after March 1, 2013. Earlier adoption is permitted as of the beginning of the fiscal year in which this Section is first applied. As well, the following transitional provisions apply:

(a) A government or government organization applying paragraph PS 3450.099(b)(ii) recognizes any adjustment to the previous carrying amount of a financial instrument asset that is externally restricted as a liability.

GLOSSARY

Amortized cost is the amount at which a financial instrument asset or a financial instrument liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

...

The **effective interest method** is a method of calculating the amortized cost of a financial instrument asset or a financial instrument liability (or group of financial instrument assets or financial instrument liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument asset or financial instrument liability (see paragraphs PS 3450.A41-.A45).

...

Financial instruments are any contracts that give rise to financial instrument assets of one entity and financial instrument liabilities or equity instruments of another entity.

...

Financial instrument liabilities are any financial liabilities that are contractual obligations:

(a) to deliver cash or another financial instrument asset to another entity; or

(b) to exchange financial instruments with another entity under conditions that are potentially unfavourable to a government.

...

Liquidity risk is the risk that a government will encounter difficulty in meeting obligations associated with financial instrument liabilities.

APPENDIX A

APPLYING THE REQUIREMENTS

…

Definitions

A4 Currency (cash) is a financial <u>instrument</u> asset because it represents the medium of exchange and, therefore, is the basis on which all transactions are measured and recognized in financial statements. A deposit of cash with a bank or similar financial institution is a financial <u>instrument</u> asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial <u>instrument</u> liability.

A5 Common examples of financial <u>instrument</u> assets representing a contractual right to receive cash in the future and corresponding financial <u>instrument</u> liabilities representing a contractual obligation to deliver cash in the future are:

(a) accounts receivable and payable;

(b) notes receivable and payable;

(c) loans receivable and payable; and

(d) bonds receivable and payable.

In each case, one party's contractual right to receive (or obligation to pay) cash is matched by the other party's corresponding obligation to pay (or right to receive).

…

A7 The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial <u>instrument</u> asset and a financial <u>instrument</u> liability, even though such assets and liabilities are not always recognized in the financial statements. Some of these contingent rights and obligations may be insurance contracts.

A8 Physical assets (such as inventories of supplies, tangible capital assets), and leased assets are not financial assets. Control of such assets creates an opportunity to produce or supply goods and services, rent to others, use for administrative purposes or for the development, construction or repair of other tangible capital assets. Control of such assets does not give rise to a present right to receive cash or another financial instrument asset.

A9 Assets, such as prepaid expenses, for which the future economic benefit is the receipt of goods or services rather than the right to receive cash or another financial instrument asset, are not financial instrument assets. Similarly, certain deferred liabilities are not financial instrument liabilities when the outflow of economic benefits associated with them is in the nature of goods or services rather than a contractual obligation to pay cash or another financial instrument asset.

Derivative financial instruments

A10 Derivative financial instruments create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, derivative financial instruments give one party a contractual right to exchange financial instrument assets or financial instrument liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial instrument assets or financial instrument liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. [1a] Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instrument, as prices in financial markets change those terms may become either favourable or unfavourable.

…

Contracts to buy or sell non-financial items

A13 Contracts to buy or sell non-financial items do not meet the definition of a financial instrument because the contractual right of one party to receive a non-financial asset or service and the corresponding obligation of the other party do not establish a present right or obligation of either party to receive, deliver or exchange a financial instrument asset. For example, contracts that provide for settlement only by the receipt or delivery of a non-financial item (such as an option, futures or forward contract on oil) are not financial instruments. Many commodity contracts are of this type. Some are standardized in form and traded on organized markets in much the same fashion as some derivative financial instruments. For example, a commodity futures contract may be bought and sold readily for cash because it is listed for trading on an exchange and may change hands many times. However, the parties buying and selling the contract are, in effect, trading the underlying commodity. The ability to buy or sell a commodity contract for cash, the ease with which it may be bought or sold and the possibility of negotiating a cash settlement of the obligation to receive or deliver the commodity do not alter the fundamental character of the contract in a way that creates a financial instrument. Nevertheless, some contracts to buy or sell non-financial items that can be settled net or by exchanging financial instruments, or in which the non-financial item is readily convertible to cash, are within the scope of this Section as if they were financial instruments (see paragraph PS 3450.005).

A14 A contract that involves the receipt or delivery of physical assets does not give rise to a financial instrument asset of one party and a financial instrument liability of the other party, unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on trade credit.

Recognition

Traded securities – use of "trade-date" accounting

A15 The purchase or sale of financial instrument assets traded on a recognized exchange (a regular-way purchase or sale) gives rise to a fixed-price commitment between the trade date and settlement date that meets the definition of a derivative. However, because of the short duration of the commitment, it is not recognized as a derivative financial instrument.

…

Measurement

Fair value measurement considerations

A27 For financial instruments in the fair value category, the provisions in paragraphs PS 3450.A28-.A40 explain the application of fair value measurement including the use of valuation techniques. Valuation techniques may be required to measure some derivatives and when a quoted market price is not available for financial instrument assets or financial instrument liabilities that are designated by a government to the fair value category.

…

Active market – quoted price

A30 A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Fair value is defined in terms of a price agreed by a willing buyer and a willing seller in an arm's length transaction. The objective of determining fair value for a financial instrument that is traded in an active market is to arrive at the price at which a transaction would occur at the end of the period in that instrument (i.e., without modifying or repackaging the instrument) in the most advantageous active market to which a government has immediate access. However, a government adjusts the price in the more advantageous market to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued. The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure the financial instrument asset or financial instrument liability.

…

No active market – valuation technique

…

A36 The application of paragraph PS 3450.A35 may result in no gain or loss being recognized on the initial recognition of a financial instrument asset or a financial instrument liability. In such a case, the financial instrument asset or financial instrument liability is subsequently measured, and gains and losses are subsequently recognized, in accordance with this Section. Accordingly, a gain or loss is recognized after initial recognition only to the extent that it arises from a change in a factor that market participants would consider in setting a price.

A37 The initial acquisition or origination of a financial instrument asset or incurrence of a financial instrument liability is a market transaction that provides a foundation for estimating the fair value of the financial instrument. In particular, if the financial instrument is a debt instrument (such as a loan), its fair value can be determined by reference to the market conditions that existed at its acquisition or origination date and current market conditions or interest rates currently charged by a government or by others for similar debt instruments (for example, similar remaining maturity, cash flow pattern, currency, credit risk, collateral and interest basis). Alternatively, provided there is no change in the credit risk of the debtor and applicable credit spreads after the origination of the debt instrument, an estimate of the current market interest rate may be derived by using a benchmark interest rate reflecting a better credit quality than the underlying debt instrument, holding the credit spread constant, and adjusting for the change in the benchmark interest rate from the origination date. When conditions have changed since the most recent market transaction, the corresponding change in the fair value of the financial instrument being valued is determined by reference to current prices or rates for similar financial instruments, adjusted as appropriate, for any differences from the instrument being valued.

…

Inputs to valuation techniques

A40 An appropriate technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument will be based on one or more of the following factors (and perhaps others).

…

(g) Prepayment risk and surrender risk – Expected prepayment patterns for financial <u>instrument</u> assets and expected surrender patterns for financial <u>instrument</u> liabilities can be estimated on the basis of historical data. (The fair value of a financial <u>instrument</u> liability that can be surrendered by the counterparty cannot be less than the present value of the surrender amount – see paragraph PS 3450.029.)

(h) Servicing costs for a financial <u>instrument</u> asset or a financial <u>instrument</u> liability – Costs of servicing can be estimated using comparisons with current fees charged by other market participants. If the costs of servicing a financial <u>instrument</u> asset or a financial <u>instrument</u> liability are significant and other market participants would face comparable costs, the issuer would consider them in determining the fair value of that financial <u>instrument</u> asset or financial <u>instrument</u> liability. It is likely that the fair value at inception of a contractual right to future fees equals the origination costs paid for them, unless future fees and related costs are out of line with market comparables.

Effective interest method

…

A43 In some cases, financial instrument assets are acquired at a deep discount that reflects incurred credit losses. Governments include such incurred credit losses in the estimated cash flows when computing the effective interest rate.

A44 For floating rate financial instrument assets and floating rate financial instrument liabilities, periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. If a floating rate financial instrument asset or floating rate financial instrument liability is recognized initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

A45 If a financial instrument asset or a group of similar interest-bearing financial instrument assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Transfers that do not qualify for derecognition

A45A The transfer of a financial instrument asset does not result in derecognition of the transferred financial instrument asset if the government retains substantially all the risks and benefits of ownership. Examples of when a government has retained all the risks and benefits of ownership are:

(a) a sale and repurchase transaction where the repurchase price is a fixed price or the sale price plus a lender's return;

(b) a securities lending agreement; and

(c) a sale of a financial instrument asset together with a total return swap that transfers the market risk exposure back to the government.

Presentation of remeasurement gains and losses

…

Financial statement disclosures

…

Disclosures that apply to items designated to the fair value category

…

A52 If a government has designated a loan or receivable (or a group of loans or receivables) to the fair value category, it discloses:

…

(c) the amount of change, during the period and cumulatively, in the fair value of the loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk of the financial <u>instrument</u> asset determined either:

…

A53 If a government has designated a financial <u>instrument</u> liability (or a group of financial <u>instrument</u> liabilities) to the fair value category, it discloses:

(a) the amount of change, during the period and cumulatively, in the fair value of the financial <u>instrument</u> liability that is attributable to changes in the credit risk of that liability determined either:

…

(b) the difference between the financial <u>instrument</u> liability's carrying amount and the amount a government would be contractually required to pay at maturity to the holder of the obligation.

…

A54 A government discloses:

…

(b) if a government believes that the disclosure it has given to comply with the requirements in paragraphs PS 3450.A52(c) and PS 3450.A53(a) does not faithfully represent the change in the fair value of the financial <u>instrument</u> asset or financial <u>instrument</u> liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.

Risk disclosures

…

Maximum credit risk exposure

A58 Activities conducted with entities outside of a government's reporting entity that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to, the following.

(a) Making loans and advances to borrowers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial <u>instrument</u> assets.

…

A59 In accordance with paragraph PS 3450.093, a government discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to key management personnel. A government explains how such data is determined. If the outflows of cash (or another financial <u>instrument</u> asset) included in the data could either:

(a) occur significantly earlier than indicated in the data; or

(b) be for significantly different amounts from those indicated in the data (i.e., for a derivative that is included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement);

a government states that fact and provides quantitative information that enables users of its financial statements to evaluate the extent of this risk, unless that information is included in the contractual maturity analyses required by paragraph PS 3450.093(a) or (b).

Liquidity risk

…

A62 Paragraph PS 3450.093(b) requires a government to disclose a quantitative maturity analysis for derivative financial <u>instrument</u> liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of cash flows. For example, this would be the case for an interest swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial <u>instrument</u> asset or liability.

A63 Paragraph PS 3450.093(a)-(b) requires a government to disclose maturity analyses for financial <u>instrument</u> liabilities that show the remaining contractual maturities for some financial <u>instrument</u> liabilities. A government considers the following in preparing its disclosures:

(a) When a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which a government can be required to pay. For example, financial <u>instrument</u> liabilities that a government can be required to pay on demand (for example, demand deposits) are included in the earliest time band.

…

A64 The contractual amounts disclosed in the maturity analyses as required by paragraph PS 3450.093(a)-(b) are the contractual undiscounted cash flows, for example:

(a) gross finance lease obligations (before deducting finance charges);

(b) prices specified in forward agreements to purchase financial instrument assets for cash;

(c) net amounts for pay-floating / receive-fixed interest rate swaps for which net cash flows are exchanged; and

(d) contractual amounts to be exchanged in a derivative financial instrument (for example, a currency swap) for which gross cash flows are exchanged.

…

A65 Paragraph PS 3450.093(c) requires a government to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph PS 3450.093(a)-(b). A government discloses a maturity analysis of financial instrument assets it holds for managing liquidity risk (for example, financial instrument assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial instrument liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

Further, references to "financial assets" and "financial liabilities" that related to financial instruments, are proposed to be replaced with "financial instrument assets" and "financial instrument liabilities" in the following Sections:

- BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500

.16A Operating gains and losses associated with inter-governmental unit sales or transfers of financial instrument assets and financial instrument liabilities in the fair value category require elimination. When the related instrument is still held within the consolidated entity, an adjustment is required to eliminate a gain or loss as it is unrealized. To accomplish this, the gain or loss is reclassified from the consolidated statement of operations and presented on the consolidated statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.

- PORTFOLIO INVESTMENTS, Section PS 3041

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

…

(b) **Amortized cost** is the amount at which a financial instrument asset or a financial instrument liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

(c) The **effective interest method** is a method of calculating the amortized cost of a financial instrument asset or financial instrument liability (or a group of financial instrument assets or financial instrument liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument asset or financial instrument liability (see FINANCIAL INSTRUMENTS, paragraphs PS 3450.A41-.A45).

- RESTRUCTURING TRANSACTIONS, Section PS 3430

.47 Aligning with the accounting policies to be adopted by the recipient may require reclassification of assets and liabilities received in a restructuring transaction at the restructuring date. For example, reclassification would be required if the transferor and the recipient have different accounting policies on designating financial instrument assets and financial instrument liabilities in the fair value category under FINANCIAL INSTRUMENTS, paragraph PS 3450.023, and the restructuring does not give rise to changes in how risks would be managed and performance would be evaluated.

Lastly, as a result of introducing "financial instrument assets" and "financial instrument liabilities" in Section PS 3450, the following consequential amendments are also proposed to Section PS 3450:

- Removing paragraph .004 as the standard has been narrowed to consider financial instrument assets. As a result, reference to financial assets is not required:

.004 ~~The definition for **financial assets** given in FINANCIAL STATEMENT PRESENTATION, Section PS 1201, applies. However, as paragraph PS 3450.003 establishes, the requirements of this Section do not apply to all financial assets. Certain items, such as inventories for resale and an asset held for sale according to the criteria set out in paragraph PS 1201.055, are physical assets and are excluded from the scope of this Section.~~

- Introducing the definition of "financial instrument assets" in the Glossary. This definition is consistent with how international standard setters define "financial assets" in their financial instrument standards. The broader definition of" financial assets" is only used in Canada, primarily for calculating the net financial liabilities (currently known as net debt) or net financial assets indicator.

Financial instrument assets are any assets that are:

(a) cash;

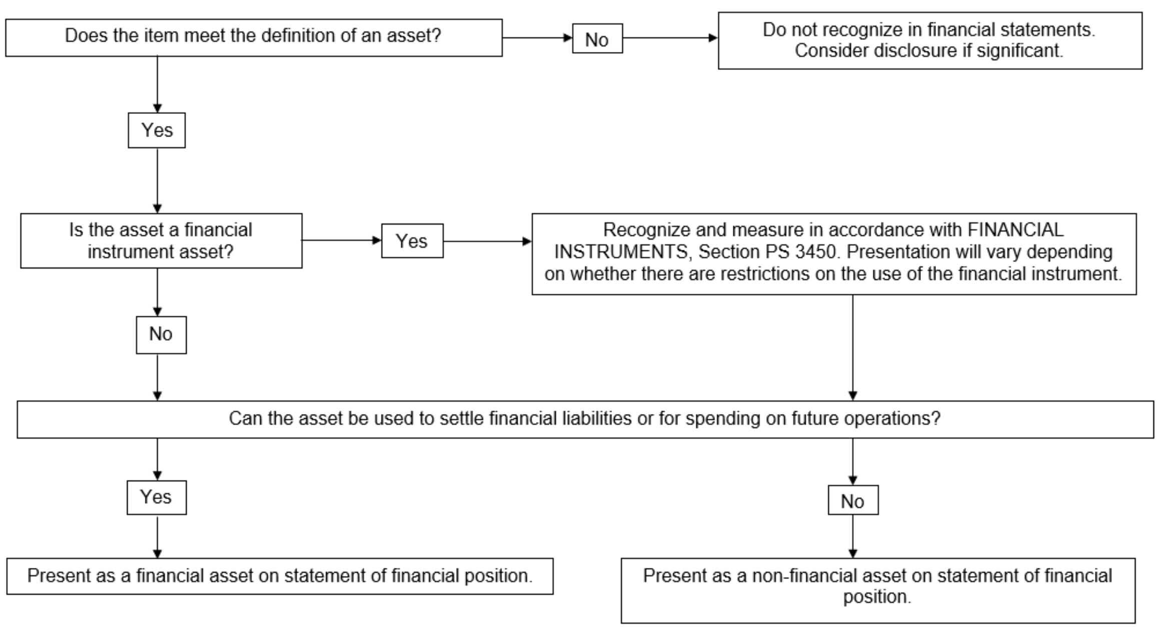
(b) an equity instrument of another entity;

(c) a contractual right:

(i) to receive cash or another financial instrument asset from another entity; or

(ii) to exchange financial instruments with another entity under conditions that are potentially favourable to the entity.

- Adding Appendix B which would include the following decision tree. The purpose of the decision tree is to help preparers determine how to present and recognize financial instrument assets.



The Exposure Draft "Financial Instruments – Foreign Exchange Narrow Scope Amendments" proposes:

- new paragraph PS 2601.19A;
- amendments to paragraph PS 2601.25;
- new paragraph PS 3450.071A; and
- amendment to paragraph PS 3450.099.

If PSAB approves these narrow-scope amendments for Sections PS 2601 and PS 3450, the following amendments are proposed to the paragraphs as a result of proposed Section PS 1202:

- FOREIGN CURRENCY TRANSLATION, Section PS 2601

.19A A government may make an irrevocable election upon initial recognition of a financial instrument asset or financial instrument liability arising from a foreign currency transaction. This election allows a government to recognize all exchange gains and losses arising from a financial instrument asset or financial instrument liability, including those arising prior to settlement or derecognition, directly in the statement of operations. When this election is made for a financial instrument asset or financial instrument liability in the fair value category, the exchange gain or loss component of the change in fair value is separated and recognized directly in the statement of operations. Amounts subject to this election may be reported on a net basis in the statement of operations.

…

.25 The following provisions are applied at the beginning of the fiscal year (the transition date) in which this Section is initially adopted.

…

(e) A government may make the election in paragraph PS 2601.19A for a financial instrument asset or financial instrument liability arising from a foreign currency transaction at the transition date. The following provisions are applied to a financial instrument asset or financial instrument liability for which this election is made:

(i) any exchange gain or loss arising prior to or as at the transition date is accounted for as an adjustment in the balance of the accumulated surplus or deficit at the transition date to the extent those exchange gains and losses have not been recognized in surplus or deficit prior to the transition date; and

(ii) any unamortized exchange gain or loss deferred on the statement of financial position is accounted for as an adjustment in the balance of the accumulated surplus or deficit at the transition date.

- FINANCIAL INSTRUMENTS, Section 3450

.071A If applicable, a government discloses in the notes the carrying amounts of financial instrument assets and financial instrument liabilities in which exchange gains and losses, including the exchange gain or loss component of changes in fair value, are recognized directly in the statement of operations.

.099 The transition to this Section is as follows:

…

(b) At the beginning of the fiscal year in which this Section is initially applied:

…

(ii) … If a government has made the election in FOREIGN CURRENCY TRANSLATION, paragraph PS 2601.19A on transition for a financial instrument asset or financial instrument liability, the exchange gain or loss component of the difference between fair value and its previous carrying amount is recognized as an adjustment to the accumulated surplus or deficit.

Recognizing "financial liabilities" and "non-financial liabilities"

Proposed Section PS 1202 introduces categories of liabilities: financial and non-financial. The following consequential amendments are proposed to recognize the different categories of liabilities:

- INTERESTS IN PARTNERSHIPS, Section PS 3060

.57 *Deferred gains arising from the public sector entity's investment of assets in the partnership should be reported with financial liabilities in the public sector entity's statement of financial position.* [~~OCT. 1999~~ APRIL 2024]

- RESTRICTED ASSETS AND REVENUES, Section PS 3100

.10 Other restricted inflows may be received before the period in which the related expenditures will be incurred and, therefore, should not be recognized as revenues in the current period. In such cases, the government has an obligation to use the resources as stipulated in a future period and that obligation is best reflected by recording the unspent portion as a financial liability (deferred revenue).

.11 *Externally restricted inflows should be recognized as revenue in a government's financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met should be reported as a financial liability until the resources are used for the purpose or purposes specified.* [~~JUNE 1997~~ APRIL 2024]

- LONG-TERM DEBT, Section PS 3230

.01 This Section establishes standards on how to account for and report long-term debt in government financial statements[1], including debt issued on behalf of a government business enterprise. It does not address the presentation and disclosure of other long-term obligations of a government. General guidance regarding the presentation and disclosure of a government's <u>financial</u> liabilities is provided in FINANCIAL STATEMENT PRESENTATION, paragraphs PS ~~1201.044-.048~~ <u>1202.073-.083</u>. Retirement benefits are specifically dealt with in RETIREMENT BENEFITS, Section PS 3250. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.

…

.07 When a government undertakes general borrowing and then subsequently loans some or all of the debt proceeds to a government business enterprise, the government would include the entire amount that it has borrowed from sources external to the reporting entity as a <u>financial</u> liability on its consolidated statement of financial position. Any amount subsequently loaned to a government business enterprise would be included on the consolidated statement of financial position as a receivable from a government business enterprise. The government business enterprise would record the amount loaned as a liability owed to the government.

- RETIREMENT BENEFITS, Section PS 3250

DEFINED BENEFIT PENSION PLANS

Liability and expense

.015 Obligations for retirement benefits result from a promise by a government to provide retirement benefits to employees because of retirement in return for their services. The obligations arise as employees render services. Therefore, as employees render services, the value of the retirement benefits attributed to those services would be recorded as a <u>financial</u> liability and expense as are other forms of current compensation.

.016 *The statement of financial position should report the retirement benefit liability <u>as a financial liability</u> and the statement of operations should report the expenses for retirement benefits on the basis of the value of the benefits attributed to employee service to the financial statement date.* [~~SEPT. 2001~~ <u>APRIL 2024</u>]

…

DEFINED CONTRIBUTION PLANS

.097 *For defined contribution plans:*

(c) the liability for retirement benefits should be the difference between the amount a government was required to contribute and the amount that was contributed by the financial statement date including accumulated interest on any outstanding amounts payable to the fund at the financial statement date;

(d) the retirement benefit liability should be accounted for in the statement of financial position and presented as a financial liability;

(e) the expense for retirement benefits should be the amount of required contributions provided for employees' services rendered in the period. Interest accrued during the period on any outstanding amounts payable to the fund should be accounted for as a retirement benefit interest expense; and

(f) the retirement benefit expense and the retirement benefit interest expense should be accounted for in the statement of operations. [~~SEPT. 2001~~ APRIL 2024]

…

APPENDIX B – ILLUSTRATIVE EXAMPLES

Statement of Financial Position (excerpts)		
As at March 31 ($ thousands)	20X4	20X3
Financial liabilities		
Accounts payable	x	x
Accrued liabilities	x	x
Borrowings		
Treasury bills	x	x
From other governments	x	x
Bonds payable to pension fund (note)	200,000	190,000
Other	x	x
Pension liability (note)	456,312	441,358
Total financial liabilities	x	x
~~Excess of liabilities over financial assets~~	~~x~~	~~x~~
	=======	=======

- POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255

Benefits that vest or accumulate

.15 For post-employment benefits and compensated absences that vest or accumulate, obligations result from a government promise to provide benefits to employees in return for their services. As employees render services, the value of the post-employment benefits and compensated absences attributed to those services would be recorded as a financial liability and expense. RETIREMENT BENEFITS, Section PS 3250, provides general principles that are appropriate to govern the accounting for and disclosure of post-employment benefits and compensated absences that vest or accumulate.

.16 **A government should recognize a financial liability and an expense for post-employment benefits and compensated absences that vest or accumulate in the period in which employees render services to the government in return for the benefits. RETIREMENT BENEFITS, Section PS 3250, should be followed in accounting for such benefits.** [~~JAN. 2004~~ APRIL 2024]

…

Event-driven benefits

…

.22 **A government should recognize a financial liability and an expense for post-employment benefits and compensated absences that do not vest or accumulate when the event that obligates the government occurs.** [~~JAN. 2004~~ APRIL 2024]

TERMINATION BENEFITS

…

.28 **A government should recognize termination benefits as a financial liability and expense when it is demonstrably committed to either:**

(a) **terminate the employment of an employee or group of employees; or**

(b) **provide termination benefits as a result of an offer to encourage voluntary termination.** [~~JAN. 2004~~ APRIL 2024]

…

.32 If the time frame for implementing a plan relates to several accounting periods, the estimated cost of the involuntary termination benefits would be determined on a present value basis in the current period and recognized as a financial liability and expense in that period. Estimates may need to be re-evaluated as new events occur, as more experience is acquired, or as additional information is obtained.

- LIABILITY FOR CONTAMINATED SITES, Section PS 3260

.08 *A liability for remediation of contaminated sites should be recognized when, as at the financial reporting date:*

(a) an environmental standard exists;

(b) contamination exceeds the environmental standard;

(c) the government:

(i) is directly responsible; or

(ii) accepts responsibility;

(d) it is expected that future economic benefits will be given up; and

(e) a reasonable estimate of the amount can be made.

An obligation for remediation of contaminated sites cannot be recognized as a liability unless all criteria above are satisfied. When an obligation for remediation of contaminated sites is recognized as a liability it would be presented as a financial liability in the statement of financial position.[1] [APRIL 2024~~2014~~]

NEW NOTE 1: FINANCIAL STATEMENT PRESENTATION, Section PS 1202, provides guidance on financial liabilities.

- ASSET RETIREMENT OBLIGATIONS, Section PS 3280

.09 *A liability should be recognized when, as at the financial reporting date:*

(a) there is a legal obligation to incur retirement costs in relation to a tangible capital asset;

(b) the past transaction or event giving rise to the liability has occurred;

(c) it is expected that future economic benefits will be given up; and

(d) a reasonable estimate of the amount can be made.

A liability for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied. When an asset retirement obligation is recognized as a liability it would be presented as a financial liability in the statement of financial position.[1][APRIL 2024~~2021~~]

NEW NOTE 1: FINANCIAL STATEMENT PRESENTATION, Section PS 1202, provides guidance on financial liabilities.

- LOAN GUARANTEES, Section PS 3310

.08 *A provision for losses on loan guarantees should be established when it is determined that a loss is likely, and should be accounted for as a financial liability and in the statement of operations as an expense.* [~~JUNE 1995 *~~ APRIL 2024]

…

.24 *The amount of a guaranteed loan that is expected to be repaid from future government assistance should be accounted for as a financial liability and an expense in the statement of operations in the period when a direct relationship can be established between the repayment of the loan and the government's funding to the borrower.* [~~JUNE 1995 *~~ APRIL 2024]

- GOVERNMENT TRANSFERS, Section PS 3410

.23A A liability arising from:

(a) an operating transfer would be presented as a financial liability;

(b) a capital transfer for the purpose of acquiring or developing a tangible capital asset would be presented as a financial liability;

(c) a capital transfer for the purpose of acquiring or developing a tangible capital asset for use in providing services for a defined number of years would:

(i) initially be presented as a financial liability, as the capital transfer is received; and

(ii) then reclassified to a non-financial liability as the tangible capital asset is acquired or developed;

(d) a transfer of a tangible capital asset that is to be used to provide services for a defined number of years would be presented as a non-financial liability.

- FINANCIAL INSTRUMENTS, Section PS 3450

.082 For fair value measurements recognized in the statement of financial position, a government discloses the following for each class of financial instruments.

…

(b) Any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level are disclosed and discussed separately from transfers out of each level. For this purpose, significance is judged with respect to remeasurement gains and losses and total financial assets or total financial liabilities.

…

In the case of significant transfers in or out of Level 3, transfers into Level 3 are disclosed and discussed separately from transfers out of Level 3. A government discloses how the effect of a change to a reasonably possible alternative assumption was calculated. In these cases, significance is judged with respect to remeasurement gains and losses and total financial assets or total financial liabilities.

- LEASED TANGIBLE CAPITAL ASSETS, PSG-2

11 A government should account for leased property that meets the definition of a leased tangible capital asset as a tangible capital asset and a financial liability.

Also, consequential amendments will be made to PUBLIC PRIVATE PARTNERSHIPS, new Section PS 3160, to note the following:

- liabilities identified under the financial liability model would be classified and presented as financial liabilities; and
- liabilities identified under the user pay model would be classified and presented as non-financial liabilities.[8]

Other Amendments

The following consequential amendments are proposed to Section PS 3050 to be consistent with the definition of a "financial asset" in proposed paragraph PS 1202.005(a):

.12 If a direct relationship can be established between the government assistance given to a borrower and repayment of the loan, the loan does not meet the definition of a financial asset. The government would not receive any resources from the loan transaction that could be used to discharge existing financial liabilities or spend on ~~finance~~ future operations. Such transactions are in the nature of grants, and should be accounted for as expenses in accordance with GOVERNMENT TRANSFERS, Section PS 3410.

The definition of "financial assets" is proposed to be removed from Section PS 3450 as it resides in proposed Section PS 1202:

[8] Section PS 3160 is expected to be included in the PSA Handbook in the first half of 2021, at the same time that this Exposure Draft is out for public comment. As a result, the exact consequential amendments cannot be reflected at this time.

GLOSSARY

~~**Financial assets** are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.~~

The following consequential amendments are proposed to FUNDS AND RESERVES, PSG-4, to update the language to be consistent with that in proposed Section PS 1202:

7 Therefore, when a government chooses to provide information about any funds or reserves, it does so only in the notes and schedules and not on the statement of financial position. The creation of, addition to or deduction from funds and reserves does not create a revenue or expense, and would therefore not be reported on the statement of operations or the statement of changes in net assets or net liabilities.

…

8 These principles are consistent with those established in FINANCIAL STATEMENT PRESENTATION, Section PS 1202 ~~1201~~, which sets out the indicators for consolidated financial statements ~~and specifies the residual amounts of the financial statements.~~ ~~1~~

Paragraph 8, note 1: ~~The residual balance on a financial statement refers to the final number or "bottom line" of the financial statement.~~

…

~~10 Likewise, consistent with FINANCIAL STATEMENT PRESENTATION, paragraph PS 1201.078, the residual amount of the statement of operations is the ending accumulated surplus / deficit unless a separate statement reconciling the beginning and ending accumulated surplus / deficit with surplus / deficit for the period is provided. In this case, the residual amount for the statement of operations is the surplus / deficit for the period.~~

Amendments to effective dates and transitional provisions

The consequential amendments proposed in this Exposure Draft will be effective at the same time as the revised financial statement presentation standard, proposed Section PS 1202: for fiscal years beginning on or after April 1, 2024. As a result, in every standard affected by the consequential amendments (i.e., those Sections noted in this Exposure Draft), a paragraph is being added to transparently indicate what has been changed, the effective date of the amendments and the transitional provisions of those amendments.

- GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150

.27 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraph.03(c)(i). The amendment is applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendment is to be applied retroactively with restatement of prior periods.

- ACCOUNTING CHANGES, Section PS 2120

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.36 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs PS 2120.06(b)-(c), .15, .17, .33 and .34 and added paragraph PS 2120.17A. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- SUBSEQUENT EVENTS, Section PS 2400

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.16 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraph .09A(a). The amendment is applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendment is to be applied retroactively with restatement of prior periods.

- BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.22 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs .07(c), .11, .14, .16A and .18. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510

.53 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs .06(b) and (c), .07, .42(b) and .18. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- FOREIGN CURRENCY TRANSLATION, Section PS 2601

.27 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs .08, .18, .19(a) and (b) and .22. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- PORTFOLIO INVESTMENTS, Section PS 3041

.35 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs .02(b)-(c) and .07. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- LOANS RECEIVABLE, Section PS 3050

.64 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraph .12. The amendment is applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendment is to be applied retroactively with restatement of prior periods.

- INTERESTS IN PARTNERSHIPS, Section PS 3060

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.61 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs .50 and .57. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.22 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs .08A, .58A-.59 and .69(b). The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- RESTRICTED ASSETS AND REVENUES, Section PS 3100

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.22 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs .10 -.11. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- LONG-TERM DEBT, Section PS 3230

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.26 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs .01 and .07. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- RETIREMENT BENEFITS, Section PS 3250

.118 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs PS 3250.005, PS 3250.015-.016 and PS 3250.097(b) and the Statement of Financial Position in the Financial Statement Disclosure section of Example 1 of Appendix B. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255

.41 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs PS 3255.15-.16, PS 3255.22, PS 3255.28 and PS 3255.32. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- LIABILITY FOR CONTAMINATED SITES, Section PS 3260

.71 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraph .08. The amendment is applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendment is to be applied retroactively with restatement of prior periods.

- ASSET RETIREMENT OBLIGATIONS, Section PS 3280

.68A FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraph .09. The amendment is applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendment is to be applied retroactively with restatement of prior periods.

- LOAN GUARANTEES, Section PS 3310

.35 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs .08 and .24. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

- REVENUE, Section PS 3400

.94 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraph .28. The amendment is applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendment is to be applied retroactively with restatement of prior periods.

- GOVERNMENT TRANSFERS, Section PS 3410

.38 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, added paragraph .23A. The addition is applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The addition is to be applied retroactively with restatement of prior periods.

- RESTRUCTURING TRANSACTIONS, Section PS 3430

.63 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraph .47. The amendment is applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendment is to be applied retroactively with restatement of prior periods.

- FINANCIAL INSTRUMENTS, Section PS 3450

.101 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs.003(b),.004,.009-.011,.022-.024,.030,.034-.035,.037,.042-.043,.048-.053A,.055,.059-.061,.063,.065-.067A,.070,.073,.077A-.077B,.080,.082,.084,.091,.093 and.099-.099A. The amendments are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments are to be applied retroactively with restatement of prior periods.

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

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.054 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended footnote 1 to paragraph .05(c). The amendment is applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendment is to be applied retroactively with restatement of prior periods.

- LEASED TANGIBLE CAPITAL ASSETS, PSG-2

32 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraph 11 and removed paragraph 31. The amendment to paragraph 11 is applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendment to paragraph 11 is to be applied retroactively with restatement of prior periods.

- FUNDS AND RESERVES, PSG-4

13 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs 6-10 and removed paragraph 12. The amendments to paragraphs 6-10 are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments to paragraphs 6-10 are to be applied retroactively with restatement of prior periods.

- SALE-LEASEBACK TRANSACTIONS, PSG-5

57 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in XXXX 2022, amended paragraphs 2 and 8 and removed paragraph 56. The amendments to paragraphs 2 and 8 are applicable for fiscal years beginning on or after April 1, 2024. Earlier application is permitted. The amendments to paragraphs 2 and 8 are to be applied retroactively with restatement of prior periods.