

In Brief

A plain and simple overview of PSAB’s Exposure Draft, Financial Statement Presentation, Proposed Section PS 1202

This is an overview of the key amendments proposed in PSAB’s Exposure Draft “Financial Statement Presentation, Proposed Section PS 1202”.

Project objectives:	<p>PSAB is proposing changes to its Conceptual Framework and Reporting Model because:</p> <ul style="list-style-type: none"> • it is necessary for a standard setter to periodically review its conceptual framework to ensure it remains relevant; • the Board was asked to look at the existing conceptual framework to ensure it properly reflects and is grounded in the public sector environment; and • certain standards-level issues made some stakeholders question the foundations of public sector financial reporting, so reconfirming if they were appropriate was necessary.
The project stage:	The project is in the last consultation stage.
Next steps:	The feedback we receive will help finalize the revised Conceptual Framework and Reporting Model.
Comment deadline:	May 12, 2021
How to respond:	Submit your feedback by taking part in the Connect.FRASCanada.ca project or submitting a comment letter .

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What is the proposed reporting model?

The proposed reporting model, includes:

- a statement of financial position;
- a statement of net financial assets or net financial liabilities;
- a statement of operations;
- a statement of changes in net assets or net liabilities;
- a statement of cash flow; and
- accompanying notes and schedules.

Proposed Reporting Model

- Statement of financial position
- **NEW Statement of net financial assets or net financial liabilities**
- Statement of operations
- **NEW Statement of changes in net assets or net liabilities**
- Statement of cash flow
- Notes and schedules

- Instead of the Net Financial Assets or Net Debt subtotal on the existing statement of financial position.
- Presents the net financial assets or net financial liabilities (currently known as net debt) indicator.
- The statement of change in net debt has been removed. However, an entity has the option to present the change in the indicator on this new statement.

- The information currently presented on the statement of remeasurement gains and losses would be presented on this statement.
- Details can be included as a separate statement or schedule if summary information is preferred on the statement of changes in net assets or net liabilities.

The proposed reporting model builds on the existing one in Section PS 1201.

The anticipated effects of the proposed reporting model are:

- increased user understanding of financial statements and the indicators within them; and
- improved accountability information for users.

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Why does PSAB think this is the right model for financial statement users?

After considering the relative merits of many reporting models and the extensive input received from stakeholders on the various documents for comment, PSAB believes that the proposed reporting model best meets user needs.

There are many reasons this reporting model is right for financial statement users, including the following:

- It allows the financial position to be understandable because it only comprises assets and liabilities.
- It does not include features respondents to previous documents for comment disagreed with:
 - deferred inflows and outflows as elements; and
 - a two bottom line or “other comprehensive income” approach on the statement of surplus or deficit.
- The model would allow PSAB to respond to issues raised (such as the accounting for performance obligations, natural capital or endowments), while ensuring that the economic substance is reflected for improved accountability information.

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What are the changes proposed to the statement of financial position?

Four key amendments are being proposed to the statement of financial position:

1. the relocation of the net debt or net financial assets subtotal to its own statement;
2. the introduction of two categories of liabilities: financial and non-financial;
3. a restructured statement; and
4. the addition of a new component of the net assets or net liabilities position.



See our visual on the [Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202"](#) for the proposed new look of the statement of financial position.

Net Debt

The net debt indicator is relocated to its own statement, the statement of net financial assets or net financial liabilities because it allows:

- the indicator to be prominently displayed in a statement, rather than being presented as a subtotal in the statement of financial position; and
- PSAB to refine the calculation of the indicator to ensure its original meaning is retained.

Liabilities

Liabilities are separated into two categories: financial and non-financial. These changes would remove liabilities not settled with financial assets from the calculation of the net financial assets or net debt indicator, returning the indicator to its original meaning.

Restructured statement

The statement of financial position is restructured to present total assets followed by total liabilities to arrive at the net assets or net liabilities indicator of financial position to make the statement more understandable to users.

New Component of Net Assets or Net Liabilities

"Accumulated other" was added as a third component of net assets or net liabilities. (The reporting model in Section PS 1201 includes two components of net assets or net liabilities, accumulated operating surplus or deficit and accumulated remeasurement gains and losses.) This third component allows PSAB to respond to users' needs as they arise and transparently reflect the economic substance of unique transactions and other events, leading to improved accountability information presented in the financial statements.

Only PSAB would designate revenues and expenses for recognition in this component; extrapolation to other items would not be allowed.

No revenues or expenses are currently designated for recognition in this component. However, PSAB could consider this component when determining the accounting for endowments, natural capital, heritage resources.

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What's new

Financial and non-financial liabilities

The need to ensure the net debt or net financial asset indicator retained its original meaning led to the requirement to distinguish between financial and non-financial liabilities on the statement of financial position.

Why?

In reviewing the net debt calculation PSAB recognized that the calculation needed to be revisited as it was no longer measuring what it was originally intended to measure – future financial resource requirements.

The Board received feedback that certain items included in the calculation should be excluded. The existing calculation was initially used when all recognized liabilities would be settled with financial assets. There were no complex liabilities, such as those relating to public private partnership arrangements. PSAB felt that some items now recognized as liabilities needed to be evaluated for inclusion in or exclusion from the calculation of the net debt or net financial asset indicator.

PSAB concluded that creating two categories of liabilities was an improvement to the proposed calculation in the Statement of Principles. Feedback received on the Statement of Principles indicated that the exceptions noted in the calculation were confusing.

What other benefits are derived from separating liabilities into two categories?

The introduction of a financial liabilities category presented the opportunity to reflect on whether net debt should be renamed “net financial liabilities”. In previous discussions, this phrase was suggested by various stakeholders because of confusion with other terms such as issued debt net of sinking funds. Now that a financial liabilities category is proposed, PSAB is proposing to rename the term “net debt” to “net financial liabilities”.

New non-financial asset definition

The definition of non-financial assets has been amended to allow items that are not financial assets but do not fit well into the existing definition of non-financial assets to have a clear classification and presentation location. Essentially, a non-financial asset is any asset not meeting the (unchanged) financial asset definition.

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What is the statement of net financial assets or net financial liabilities?

The statement of net financial assets or net financial liabilities (currently known as “net debt”) is a new statement. It presents the revised calculation of net financial assets or net financial liabilities

Revised Calculation

The calculation of the indicator is proposed to be **financial assets minus financial liabilities**.

This allows the indicator to measure what it was meant to:

- A **net financial assets** position means there are financial assets available to provide services in the future and settle future financial liabilities.
- A **net financial liabilities** position means there is a need for future financial assets to settle past financial liabilities. It represents a lien on future financial assets and affects an entity's ability to finance its activities, provide services and settle its financial liabilities in the future.



See our visual on the [Exposure Draft, “Financial Statement Presentation, Proposed Section PS 1202”](#) to see what the statement of net financial assets or net financial liabilities is proposed to look like.

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What's new

Revised calculation

PSAB revised the indicator calculation based on feedback received on the Statement of Principles, which suggested that respondents found the proposed exclusions confusing.

PSAB is requiring that an explanation of the indicator be included on the statement so that the indicator can be better understood.

Optional presentation

In the Statement of Principles, PSAB proposed to discontinue the requirement to present a statement of change in net debt or net financial assets. The majority of respondents agreed with this proposal, though others expressed concern that important accountability information would be lost. Accordingly, PSAB decided that presentation of the change in net financial assets or net financial liabilities would be optional. If an entity chooses to present the change in net financial assets or net financial liabilities, it would do so on the new statement of net financial assets or net financial liabilities, as long as the information presented is understandable and useful for accountability purposes.

Presenting all the information on the indicator in one statement, the statement of net financial assets or net financial liabilities, may lead to better understanding and a more comprehensive narrative about the indicator.

Note: One of the key reconciling items on the existing statement of change in net debt is the actual capital spending in the period compared to that budgeted. PSAB proposes to retain this requirement (and present it either in the notes or on the statement as an explanatory item) as many entities have significant holdings of tangible capital assets.

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Has anything changed with the statement of operations?

The statement of operations is substantially unchanged.

Revenues are presented by major type. Expenses are presented by function.

The actual to budget comparison is presented as it is a crucial aspect of the accountability cycle.

Surplus or deficit is the difference between the revenues and expenses recognized in the statement of operations.



What's new

Clarity on the reporting of revenues and expenses

Current requirements indicate that financial statements should disclose the gross amounts of revenues and expenses, but there has been confusion as to what this means. PSAB is providing clarity by indicating that revenues and expenses are to be reported at their gross amounts on the face of the financial statements unless otherwise required by another standard.

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What is the statement of changes in net assets or net liabilities?

The statement of changes in net assets or net liabilities is a new statement. It shows the reconciliation between the opening and closing balances of each component of net assets or net liabilities.

The statement's purpose is to be transparent with respect to those revenues and expenses recognized in surplus or deficit and those recognized directly in a component of net assets or net liabilities (i.e. accumulated remeasurement gains and losses or accumulated other).

This new statement does not preclude an entity from also providing a detailed statement or schedule to support summary information in any particular component if the details of changes in that component in the period would be too complex for the new statement.

Is the accumulated remeasurements component of net assets or net liabilities the same as that in the existing reporting model?

Yes, though when developing future standards, PSAB may permit other unrealized remeasurements to be recognized in this component.



See our visual on the [Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202"](#) to see what the statement of changes in net assets or net liabilities is proposed to look like.

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What are the changes proposed to the statement of cash flow?

The main amendment to this statement is the isolation of financing activities.

Highlighting net cash before financing activities after all other cash inflow and outflow categories for the period, shows whether all of an entity's other activities combined resulted in the need for cash to be raised through financing activities or not.

This is an important indication of an entity's sustainability.



See our visual on the [Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202"](#) for the proposed new look of the statement of cash flow.

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What other amendments are being proposed?

New budget requirements are also being proposed.

The new budget requirements include the following:

1. Budget amounts on financial statements should be presented using the same basis of accounting, following the same accounting principles, for the same scope of activities, and using the same classifications as the actual amounts. This allows for an understandable actual-to-budget comparison.
2. When budget information is not prepared or approved, an acknowledgement stating this should be presented on the face of the statements. As a key aspect of the accountability cycle, it is important to indicate when the budget is not prepared or approved.
3. In two situations an entity may present an amended approved budget, both relating to changes in governance initiated by primary users. Since the purpose of financial statements is to provide accountability to primary users, when those users change their representatives and/or mandate, using an amended, approved budget may be appropriate.



What's new

Clarified budget requirements

Based on the feedback received on the Statement of Principles, PSAB clarified the budget requirements including situations in which an entity may present an amended budget and what should be presented when the budget is not prepared or approved.

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When are the proposals effective?

The proposals are effective for fiscal years beginning on or after April 1, 2024.

In selecting a transition period, PSAB noted that because its proposals only affect presentation, they should be more straightforward to implement than changes affecting recognition and measurement.

The Board looks forward to your thoughts on whether the proposed 18-month transition period (from inclusion in the PSA Handbook) allows sufficient time for entities to make necessary system updates, collect the information needed to restate comparatives and resolve any operational challenges.

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What is the impact of the proposed reporting model on the PSA Handbook?

A series of consequential amendments are being proposed to various Sections of the PSA Handbook to make them consistent with the proposed reporting model.

The proposed consequential amendments would include:

- withdrawing the existing reporting model standard, FINANCIAL STATEMENT PRESENTATION, Section PS 1201;
- amending references to FINANCIAL STATEMENT PRESENTATION, Section PS 1201;
- acknowledging multiple components of net assets or net liabilities;
- amending references to “net debt” or “change in net debt”;
- amending references to “statement of remeasurement gains and losses”;
- introducing “financial instrument assets” and “financial instrument liabilities”;
- recognizing financial liabilities and non-financial liabilities; and
- introducing new effective dates and transitional provisions relating to proposed changes to existing standards.

Refer to [Exposure Draft, “Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202”](#) for further information.

PSAB expects to issue the final amendments after it finalizes the proposed reporting model. The amendments will be effective at the same time as the reporting model (proposed to be for fiscal years beginning on or after April 1, 2024).

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Next steps

The deadline for comments is
May 12, 2021.

Comment on the proposals

Read the [Exposure Draft, "Financial Statement Presentation, Proposed Section PS 1202"](#) and our various supporting materials.

Submit your feedback by taking part in the [Connect.FRASCanada.ca project](#) or submitting a [comment letter](#).

We value your input and look forward to your feedback.

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