

PSA Update

Financial Management Institute



The PSA Handbook is the primary authoritative source of public sector GAAP.

The opinions stated in the presentation are those of the author and do not necessarily reflect the views of PSAB. Official positions of PSAB are established only after extensive public due process.

Agenda

- International directions
- PSAB strategic directions
- Government transfers
- Financial instruments
- Contaminated sites
- Government organizations



International Directions

- PSAB does NOT have a convergence strategy with any other standard setter
- Canada has
 - A delegate on IPSASB, one of 15 appointed members; and
 - A public member, one of 3
- Staff comment on all EDs and involved in the Conceptual Framework



PSAB Directions

- Expand the scope of activities to include government organizations applying PSA Handbook
- School boards and First Nations (subject to due process)
- Actively influence IPSASB
- Continue to issue SORPs
- Develop communications strategy



Government Transfers

- Over 70 responses received
- Key issues raised include:
 - Capital transfers cash or in kind
 - Land
 - Developer contributions (PS 3100)
 - Cost versus benefit
- No consensus



Issue	Re-exposure approach
Transferring Government	Recognize expense when authorized and eligibility criteria, if any, have been met by the recipient.
Recipient Government: -Operating	Revenue in the period transfer is authorized and eligibility criteria, if any, have been met by the recipient, except when and to the extent that the transfer gives rise to a liability.
-Capital	Recognize as a deferred capital contribution (DCC) when the transfer is authorized and eligibility criteria, if any, have been met by the recipient.
DCC: Presentation	Report gross amount, separate from and below non-financial assets.
DCC: Recognition in revenue	Recognize in revenue when, and in proportion to how, the related TCA is recognized in expenses.



Presentation

For the year ended March 31, 201X

Financial assets	\$ XXX
Liabilities (including any related to operating transfers)	<u>XXX</u>
Net debt	<u>XXX</u>
Tangible capital assets	XXX
Inventories	XXX
Total non-financial assets	<u>XXX</u>
Deferred capital contributions	XXX
Accumulated Surplus/deficit	<u>\$ XXX</u>



Responses

Type	#	Yes	No	?	Translation
SG controller	12	5	3	2	2
Legislative Auditor	7	4	2		1
Local Government (BC 34, ON 10, SK 1)	45	3	41	1	
CA Firm	6	3	2	1	
Other	6	3	2	1	
Total	76	18	50	5	3

Issues raised

- A number saying “NO” noted:
 - inconsistency with the framework
 - do not add more exceptions to the framework
 - capital transfers used for acquisition only
 - administrative burden



Issues raised

- Others saying “NO” noted:
 - application of deferral is too narrow
 - should be broadened to include funds where the government has discretion to apply to operating or capital
 - capital transfers are not deferrals but liabilities and consistent with framework



Options to consider

- Stay within the conceptual framework (performance obligations)
- Allow differences for senior and local governments
- Stay with the Re-ED and require deferrals
- Stop the project
- November PSAB will decide direction



Terminology and process

- The issue gets confused when thinking is surrounded by the theoretical approaches of capital or income, deferral and amortization or immediate recognition
- Thinking needs to be focussed and debated as to the economic and legal realities surrounding the government assistance



Simply

- If the benefit relates to something that has:
 - already occurred then the benefit is immediate; or
 - yet to be done, it remains a liability until that something is done
- Once the conditions are met, and no further obligation exists, the benefit belongs to the entity



Government transfers

- What is next?
- PSAB to discuss direction at November 2009 meeting
- Expected something in March 2010 unless we have a special meeting to do it sooner
- Cannot please everyone so manage relationships



Financial instruments

Structure and Scope:

- Recognition, Measurement, Disclosure in one focused section
- No hedge accounting
- Appendix is integral and a primary source of GAAP
- Tried to avoid creating new terminology



Financial instruments

Topic	Measurement
Derivatives	<ul style="list-style-type: none">•Active market – quoted price•Otherwise – valuation technique (often discounted cash flow)
Equity instruments that are portfolio investments	<ul style="list-style-type: none">•Active market – quoted price•Otherwise – cost
All other financial instruments	Cost or Amortized Cost
Fair value option	A government that defines and implements a risk management or investment strategy to manage and evaluate a group of financial instruments may report them at fair value



Distinguishing gains and losses

Realized gains and losses on:
Financial instruments

- **Revenue/Expense before remeasurement gains/losses**
- (budget-to-actual comparisons apply)

Unrealized gains and losses due to:
Fair value remeasurements

- **Remeasurement gains/losses**

Statement of Operations and bottom line is change in accumulated surplus/deficit



Statement of Operations

	<u>Budget</u>	<u>20X1</u>	<u>20X0</u>
Revenues	14,277	16,322	16,854
Expenses	<u>14,249</u>	<u>14,946</u>	<u>14,303</u>
Net revenue/expense excluding remeasurement gains (losses)	<u>28</u>	1,376	2,551
Remeasurement gains (losses)		<u>(125)</u>	<u>80</u>
Surplus/deficit for the period		1,251	2,631
Accum. deficit at beginning of year		<u>(1,286)</u>	<u>(3,917)</u>
Accum. deficit at end of year		<u>(35)</u>	<u>(1,286)</u>



Statement of Operations

Concept	AcSB & IFRS	PSAB ED
What is accounted for?	All changes in assets and liabilities (in one or more statements)	All changes in assets and liabilities (in one statement)
How is it presented?	As a measure of “profit” and other items (OCI)	As a measure of the extent to which revenues raised were sufficient to meet expenses incurred and unrealized gains/losses on items subject to fair value measurement



5 + 1

- A new indicator is added to the five key messages about a government's finances
- Multiple indicators = Well rounded information about government finances



Financial instruments

- ED approved June 2009 with comment period December 15, 2009
- Long comment period due to communications effort and foreign currency ED being developed
- Expect final standard in March 2010



Contaminated Sites

- Current diverse accounting practices limits usefulness and comparability
- Guidance needed to assist preparers and auditors apply liability definition
- Potential significance and materiality of liability



Contaminated sites

- Does NOT include asset retirement obligations (ARO) under “blue book” 3110
- 3110 addresses ongoing operations
- This relates to operations that have ceased (similar to closed landfills)
- If you have an ARO then use PS 1150 GAAP Hierarchy



Contaminated sites

- Recognition:
 - 1) contamination exists
 - 2) exceeds an accepted standard
 - 3) government directly responsible
 - 4) government accepts responsibility
- Recognition based on first 2 points plus 3rd or 4th



Responsibility

- No question when the government is the perpetrator either itself or one of its organizations
- Questions arise when the government is not the perpetrator
- When does the government become responsible?



Contaminated Sites

- Unassessed sites does not mean there is no liability
- Buildings and equipment used for clean-up are recognized in the liability as there are no ongoing operations to attribute the cost unless alternative use
- If alternative use, then parse the cost and amortization



Contaminated Sites

- Measurement
 1. Best estimates approach that would be reviewed at each reporting date
 2. Include recoveries when likely realized
- Measurement must be reassessed at each reporting date
- This does not mean a complete site reassessment – rather – has anything changed (new information etc.)



Contaminated sites

- Responses generally supportive
- ED approved September 2009
- Response date likely January 22, 2010
- Final standard expected March 2010



Introduction

- PSAB 1986 was not full accrual:
 - Standards applied to all governments (modified accrual)
 - Profit-oriented to CICA Handbook – Accounting (full accrual)
 - Others select most appropriate basis
- Many Crowns to CICA and no mention of not-for-profit organizations



Introduction

- 1997 AcSB introduced not-for-profit accounting into CICA Handbook-Accounting
- PSAB Introduction said other entities select most appropriate basis
- PSAB limited use of not-for-profit GAAP to those with counterparts in private sector



Introduction

- 2005-07 PSAB issued full accrual accounting principles for all governments
- 2006 AcSB released strategic plan that indicated a major review of the sources of GAAP for all organizations
- AcSB directed “publicly accountable” businesses to IFRSs



Introduction

- 2006-07 PSAB reviewed Introduction for GBEs and GBTOs as they are in the CICA Handbook – Accounting
- 2008 PSAB issued revisions for GBEs and GBTOs to follow IFRSs
- September 2008 PSAB requested to review the IFRSs decision



Stakeholder concerns

- GBEs and GBTOs not PAEs as defined by the AcSB
- Cost of change not worth the benefit
- GBTOs need to keep 2 sets of books due to consolidation



2008 PSAB issues survey

- Survey found GBE definition applied consistently
- GBTO definition not applied consistently some only had 5% revenue from selling goods and services
- IFRSs did not seem appropriate for tax dependent government organizations



Response - GBEs to IFRSs

49 responses	Total	Agree	Disagree	No comment
GBEs	9	7	2	
GBTOs	6	5	1	
OGOs	3	2		1
Senior Controllers	11		11	
Legislative Auditors	8	7	1	
Local Government	7	1	1	5
Accounting firms	5	2	3	



Conclusions

- Support (24) from those organizations having to apply IFRSs and others
- Disagreement (19) mainly from preparers of government's consolidated financial statements



Conclusions

- GBEs have broad public accountability
- Private enterprise designed for different users (creditors and lenders)
- PSA Handbook not developed for GBEs
- IFRSs = commercial publicly accountable
- Modified equity eases the “pain”
- Improves comparability



Response – Delete GBTOs

49 responses	Total	Agree	Disagree	No comment
GBEs	9	2		7
GBTOs	6	5	1	
OGOs	3	3		
Senior Controllers	11	11		
Legislative Auditors	8	7	1	
Local Government	7	3		4
Accounting firms	5	5		



Conclusions

- Support for the elimination of the definition of GBTOs (36)
- GBTOs become OGOs or NFPs



Response – OGOs Decide

49 responses	Total	Agree	Disagree	No comment
GBEs	9	2		7
GBTOs	6	6		
OGOs	3	3		
Senior Controllers	11	3	8	
Legislative Auditors	8	7	1	
Local Government	7	2	1	4
Accounting firms	5	5		



Conclusions

- Support for “choice” based on objectives (28)
- Disagreement because all OGOs should be in PSA Handbook (10)
- Diverse nature of OGOs requires “choice” = current approach
- Likely PSA Handbook but IFRSs in certain circumstances



Conclusions

- OGOs assess user needs
- Added factors to consider for assessing which GAAP
 - has or in the process of issuing debt in own name
 - holds assets in fiduciary capacity
 - commercial-like substantially derives revenue from these activities
 - limited government assistance



Introduction

- PSAB approved amendment to Introduction in September 2009 to be released December 1, 2009
- GBEs to IFRSs effective 01/01/2011
- GBTOs to OGOs or NFP GAAP
- If OGOs then PSA Handbook or IFRSs
- OGOs move over to PSAB 01/01/11
- If NFPO then wait and see what unfolds



Not-for-profit organizations

- AcSB reviewing NFP GAAP
- PSAB believes that its Handbook is a viable alternative
- Collaborative process with AcSB
- Issued joint ITC
- Responses have been reviewed
- AcSB and PSAB discussing strategy

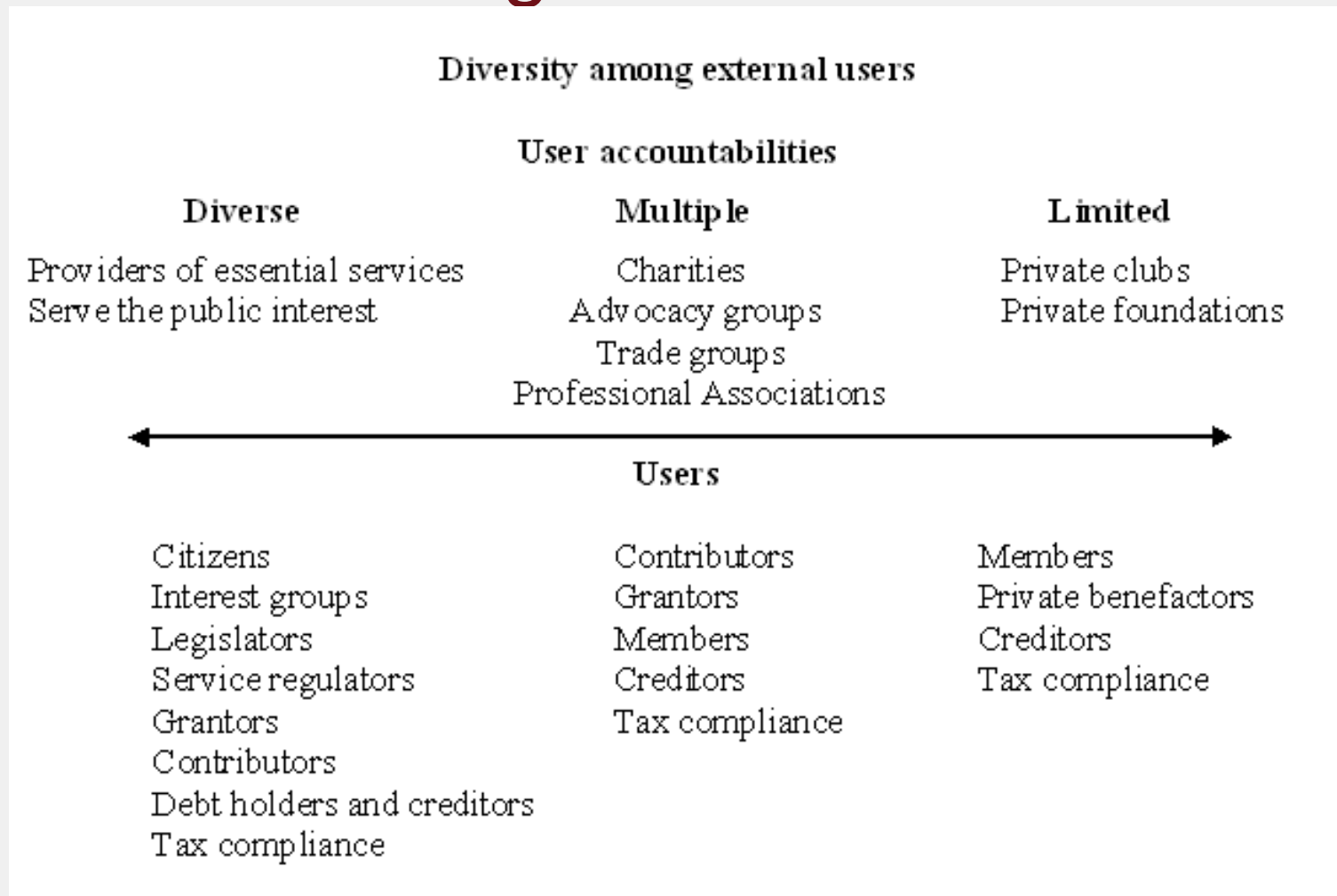


Engaged in the Process

- 150+ responses demonstrate high level of interest by NFPOs
- Messages:
 - Diverse nature, organization and needs
 - Link to other sources of GAAP, PSAB or PE to avoid complexity
 - Provide options



Broad public accountability among external users



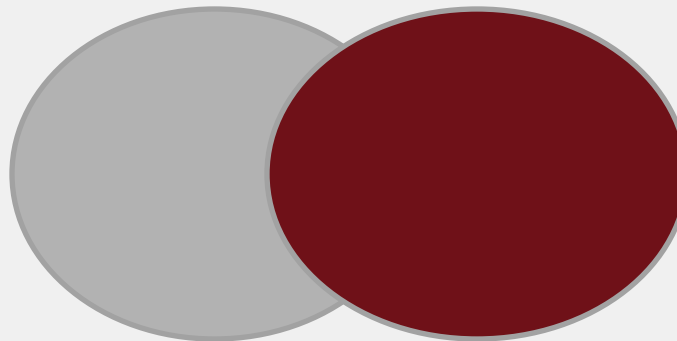
NFPOs and public services

- In many provinces, NFPOs disburse the majority of service dollars in government budgets = need for accountability to citizens
- Many public sector NFPOs are large and complex entities
 - Fraser Health, budget \$2.4 B • 25,000 employees
 - Other NFPOs, e.g. Translink, serve the public and seek PSA based reporting



NFPOs

- NFPOs that serve our higher education and health care needs sit at the conjunction of the respective standard setting Boards' authorities
- GAAP based on 'control' or 'user needs'



- Options will provide those in governance roles support in aligning reporting with user needs



The relevance of PSA

- Shared objectives:
 - Tangible assets acquired and held for ‘service provision’
 - Accountability extends beyond surplus or deficit – stewardship
 - Support users assessing ability to meet financial obligations in short, long term
 - Providing information about future revenue requirements



4400 in the PSA Handbook

- A 4400 series in the PSA Handbook
 - Garnered significant support in responses and has the support of PSAB
 - Would provide NFPOs with the presentation approach on specialized topics required



PSA Standards

- PSA Standards are ready:
 - Equivalent concepts and definitions
 - Equivalent standards in place for topics cited as having ‘generally applicability’ and ‘applying to relevant transactions and circumstances’
 - Financial instruments ED issued



The path forward

- Working together with the AcSB
 - Prepare 4400 series for exposure
 - Add to both PE and PSA
 - Focus on ensuring compatibility, (e.g. the scope of tangible capital asset recognition)
 - A ‘bottom up’ assessment can wait
 - Input from a joint task force



Questions

