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## PSAB MISSION

The Public Sector Accounting Board (PSAB) serves the public interest by:

- Establishing standards and other guidance for financial reporting by all Canadian entities in the public sector
- Contributing to the development of internationally accepted public sector financial reporting standards

The mission of PSAB is to contribute to supporting informed decision-making and accountability by maintaining a framework that provides a basis for high quality information about organizational performance reported by Canadian public sector entities.

## UPCOMING PSAB MEETINGS

- September 15-16, 2014
- December 15-16, 2014
- March 19-20, 2015
- June 18-19, 2015

You can access meeting agendas via [PSAB's calendar](#). [Decision Summaries](#) are available after each meeting.

## Activities of the Canadian Public Sector Accounting Board and Staff

### MESSAGE FROM THE CHAIR



The Public Sector Accounting Board (PSAB) started off its 2014-2015 year with a heavy agenda at its June 2014 meeting. The Board reached significant milestones in a number of projects and deliberated a few ongoing and emerging issues.

Public Sector Accounting Standards have grown significantly in both complexity and reach, and PSAB continues to look at how to best engage stakeholders and serve the public interest. This is an ongoing challenge with capacity implications.

At the meeting, PSAB approved three documents proposing five new Handbook Sections:

- a statement of principles, “Retirement Obligations,” proposing principles to account for and report on retirement obligations associated with tangible capital assets of public sector entities;
- an exposure draft, “Assets, Contingent Assets and Contractual Rights,” proposing three new standards primarily based on an earlier statement of principles; and
- an exposure draft, “Restructuring Transactions,” proposing a new standard that provides guidance for both transferors and recipients of assets and liabilities in restructuring transactions, including those among entities under common control.

We look forward to your views on these proposals and expect that they will be available online at [www.frascanada.ca](http://www.frascanada.ca) this summer.

After much discussion at prior meetings and a review of selected information by a subcommittee, PSAB approved a project proposal to undertake a post-implementation review of Section PS 3410, *Government Transfers*. The review would help PSAB assess the nature, extent and cause of issues raised by stakeholders regarding the interpretation and application of the standard, and inform the Board's next steps.

This will be PSAB's first post-implementation review since this best practice was introduced to PSAB's due process in 2012. PSAB discussed the process and procedures post-implementation reviews should follow at this meeting.

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The post-implementation review of the Government Transfers standard will provide an opportunity to test the review procedures, including the gathering of stakeholder input.

Also at the June meeting, PSAB and the Accounting Standards Board held a joint discussion to begin the process of considering responses to the Statement of Principles, “Improvements to Not-for-Profit Standards.” The discussion was primarily centred on high-level questions to be considered and additional information to be gathered for the Boards’ future deliberations.

PSAB also approved a [Project Priority Survey](#) based on stakeholder feedback to the project identification survey. Though not asked in the previous [Project Identification Survey](#), many respondents indicated support for a review of Section PS 3250, *Retirement Benefits*. Given the expressed interest and recent changes introduced to public sector pension plans in some jurisdictions, staff was requested to research background information to help PSAB understand and contemplate next steps regarding the issues involved.

The PSA Discussion Group had a successful first year. As stakeholders became more familiar with this public discussion forum, there has been growing interest in observing at the meetings. PSAB’s outreach activities continue to be very important, and we are grateful to stakeholders for their engagement and perspectives.

Rod Monette  
Chair, Public Sector Accounting Board

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## HANDBOOK SECTION – STANDARDS ON ADDITIONAL AREAS OF CONSOLIDATION

Section PS 2510, *Additional Areas of Consolidation*, establishes standards on a number of consolidation issues that are rare or require particular considerations, including:

- governmental units with non-controlling interests;
- acquisitions of governmental units;
- sale of government investments in governmental units; and
- accounting for the change in status of a governmental unit to a [government business enterprise](#).

### *Non-controlling interest*

A non-controlling interest is the equity of owners who do not hold the controlling interest in a governmental unit. It is the shares of a governmental unit that are owned by interests outside of the government reporting entity.

### *Accounting for and reporting on a governmental unit with non-controlling interest*

When a non-controlling interest exists in a governmental unit, the government reporting entity should:

- include that governmental unit in its financial statements on a proportionate consolidation basis; and
- disclose the existence and extent of a non-controlling interest in a governmental unit.

Under the proportionate consolidation method, the non-controlling interest in the assets, liabilities, accumulated surplus/deficit, revenues and expenses of the governmental unit is excluded from the government financial statements.

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## When losses in a governmental unit with a non-controlling interest exceed its share of capital

When a governmental unit that has a non-controlling interest incurs losses, the general rule is that the government only recognizes its share of the losses in the government financial statements under the proportionate consolidation method.

When the accumulated losses applicable to a non-controlling interest in a governmental unit exceed the non-controlling interest's share in the capital of the governmental unit, the excess and any further losses applicable to the non-controlling interest should be allocated to the government's interest. Underlying this treatment is the assumption that the government is at full risk of loss if the governmental unit continues to operate in these circumstances. It is because the non-controlling interest cannot be forced to contribute more capital unless it has guaranteed obligations or committed to further financial support of the governmental unit.

## Acquisitions

In an acquisition, a government acquires control of a governmental unit, paying cash or other consideration for shares representing voting control or for net assets. Governments normally create governmental units through restructuring of existing resources rather than acquire them. When they acquire a governmental unit, it is normally for policy reasons.

## Purchase method

A government includes acquired governmental units by applying the mechanics of the purchase method. Under the purchase method, the government's interest in assets acquired and liabilities assumed are accounted for at the cost to the government.

The purchase cost should be determined by the fair value of the consideration given. Where the consideration given is cash or other assets, the cost will be the amount of cash disbursed or the fair value of other assets distributed. Where debt securities are issued or liabilities are incurred, their present value will be the cost to the government. Where the fair value of the consideration is not clearly evident, the purchase cost should be the government's share of the fair value of the net assets acquired.

The purchase cost is assigned to identifiable assets acquired (individually or by type) and liabilities assumed based on their fair value at the date of acquisition. The purchase cost is assigned prior to any adjustments to conform to the accounting policies previously followed by the acquired organization to those of the government.

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Any excess of the purchase cost over the government's interest in the amounts assigned to identifiable assets acquired less liabilities assumed should be recognized as an expense in the period of acquisition because it is unlikely that it could be tied to projected future profits from revenue sources external to the government reporting entity. By definition, governmental units receive funding from the government. The purchase premium, if any, would have been paid for policy reasons rather than for commercial reasons.

In the period in which a purchase of a governmental unit occurs, government financial statements should reflect the government's proportionate share of the results of the acquired governmental unit from the date of acquisition.

### Elimination of inter-governmental unit transactions and balances

Any inter-governmental unit asset and liability balances between existing governmental units and the newly acquired governmental unit at the date of acquisition should be eliminated on consolidation.

However, revenue and expense transactions occurring before the date of acquisition between existing governmental units and a newly acquired governmental unit would not be eliminated because these transactions occurred when the entities were dealing at arm's length.

When there is a sale or transfer of depreciable tangible capital assets within the government reporting entity after the date of acquisition of a governmental unit, elimination of inter-governmental unit gains and losses will involve an adjustment of the portion of depreciation charges. This will ensure that tangible capital assets are depreciated in the government financial statements on the basis of their cost to the government reporting entity.

### Presentation and disclosure

A government should disclose the following when it acquires a governmental unit:

- the name and a description of the governmental unit acquired;
- the percentage of voting shares held if shares are acquired;
- the date of acquisition and the period for which the results of the acquired governmental unit are included in the consolidated statement of operations;
- net assets acquired including total assets and total liabilities and the amounts assigned to them;

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- the amount and type of consideration given at fair value; and
- the amount of any purchase premium charged to expenses in the period.

### *Sale of a government's investment in a governmental unit*

A government's investment in a governmental unit comprises the government's equity as a shareholder. Governmental units rarely have share capital. Though a government may sell all or part of its investment in a governmental unit, these are unusual transactions as many governmental units are integral to and derive their sole purpose from the legal or legislative responsibilities of government.

When all or part of a government's investment in a governmental unit is sold, the gain or loss on the sale should be included in the consolidated operating results of the government reporting entity in the period of sale. The gain or loss should be based on the carrying value of the governmental unit's net assets in the consolidated statement of financial position at the date of sale.

The carrying value reflects adjustments made to conform the accounting policies of the governmental unit to those of the government and elimination of the effects of inter-governmental unit transactions on assets, liabilities, accumulated surplus/deficit, revenue and expenses.

When a government sells its investment in a governmental unit, one of three situations will arise:

- The entire investment in the governmental unit is sold on the same date, for example, privatization of a governmental unit. In this situation, the organization would no longer be included as part of the government reporting entity.
- Part of a government's investment in the governmental unit is sold, but the government still controls the governmental unit. In this situation, the governmental unit remains part of the government reporting entity and would be included in the government financial statements on a proportionate consolidation basis.
- Part of a government's investment in the governmental unit is sold and the government no longer retains control of the organization. In this situation, the organization no longer forms part of the government reporting entity. It would be accounted for in the government financial statements in accordance with Section PS 3041, *Portfolio Investments*, and Section PS 3450, *Financial Instruments*, if it is determined to be a portfolio investment.

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### *When a governmental unit becomes a government business enterprise*

The status of a governmental unit may change to a government business enterprise) as a result of an observable event. In this case, a government includes the individual revenues and expenses of the organization up to the date its status changed. From that date forward, the net income and other comprehensive income of the enterprise would be accounted for in accordance with the modified equity method.

Alternatively, a change in the status of a government organization can occur over time. In this case, a government would account for the organization as a government business enterprise for the entire period in which the change in status is identified.

The financial position and results of prior periods would not be adjusted to reflect the changes in status of the organization as if it had always been a government business enterprise. This is because it is important that the government financial statements show this change in status.

## PROJECT STATUS

Learn about PSAB's latest discussions regarding its projects from its most recent [decision summary](#) or from its [active project](#) pages.

### *Asset Retirement Obligations*

PSAB reviewed a draft statement of principles, "Retirement Obligations," and requested that the document clarify the difference between retirement and replacement or renewal of tangible capital assets.

PSAB approved the following proposed principles:

- Retirement obligations associated with tangible capital assets include those resulting from legal, constructive and equitable obligations.
- Retirement costs increase the carrying amount of the related tangible capital asset or a component thereof and are expensed in a rational and systematic manner.
- Retirement obligations would be measured using best estimate methodologies.
- Subsequent remeasurement of the retirement obligation liability result in either a change in the carrying amount of the related tangible capital asset or a component thereof, or an expense, depending on the nature of the remeasurement and whether the asset remains in productive use.



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- Retirement obligations associated with tangible capital assets include post-retirement operation, maintenance and monitoring.

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### Assets

PSAB approved an exposure draft, “Assets, Contingent Assets and Contractual Rights,” after a review of the responses to its Statement of Principles. There was general support to the proposed principles and guidance. Changes made in the exposure draft include:

- removing from the guidance on control – determining how the economic resource will be used;
- changing the required disclosure to the types of unrecognized assets from the nature of unrecognized assets; and
- including factors to consider for determining disclosure of contractual rights.

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### Joint Not-for-Profit Review

PSAB and the Accounting Standards Board met together to begin the process of jointly considering written responses to their April 2013 Statement of Principles, “Improvements to Not-for-Profit Standards.” The Boards:

- began the process of assessing the over-arching principles and questions that need to be considered and additional information that should be gathered as the Boards progress with the project; and
- discussed next steps and how they can continue to collaborate on this topic.

No decisions were taken. The Boards will provide ongoing communications to inform stakeholders of developments.

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### Restructurings

PSAB approved an exposure draft, “Restructuring Transactions,” proposing standards on accounting for and reporting assets and liabilities transferred in restructuring transactions by both transferors and recipients. The proposals would apply to restructuring transactions among entities under common control.



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The exposure draft proposes the following:

- A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities, that does not involve an exchange of consideration.
- A restructuring transaction would be distinguished from an acquisition based on whether there is an exchange of consideration that is primarily determined based on the fair value of the individual assets and liabilities transferred.
- Individual assets and liabilities transferred in a restructuring transaction would be derecognized by the transferor at their carrying amount and recognized by the recipient at that same amount with applicable adjustments.
- The net effect of a restructuring transaction would be recognized as revenue or as an expense by the transferors and recipients.
- The financial position and results of operations prior to the restructuring date would not be restated.

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## DOCUMENTS FOR COMMENT

We want to hear from you! The following documents are online.

| Title of Documents  | Deadline for Comments |
|---|-----------------------|
| <a href="#">Related Party Transactions</a> (Re-exposure Draft)                    | September 15, 2014    |
| <a href="#">Assets, Contingent Assets and Contractual Rights</a> (Exposure Draft) | November 3, 2014      |
| <a href="#">Restructuring Transactions</a> (Exposure Draft)                       | November 28, 2014     |

Stay tuned for a statement of principles, “Retirement Obligations,” to be posted for public comment in the near future. Regularly check for [open documents for comment](#), and [subscribe to board publications including the newsletter, The Standard](#) and [RSS feeds](#) to keep up to date on PSAB activities.

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## UPCOMING EVENTS

### *Conferences and Professional Development Event*

The staff and members of PSAB and its task forces are scheduled to make presentations at the following conferences and events:

| Organization  | Date                     | Location                          |
|---|--------------------------|-----------------------------------|
| <a href="#"><u>Municipal Finance Officers' Association of Ontario</u></a>     | September 25, 2014       | Niagara Falls, ON                 |
| <a href="#"><u>CPA Canada</u></a>   | October 6-7, 2014        | Ottawa, ON                        |
| <a href="#"><u>Government Finance Officers Association Western Canada</u></a> | October 8-10, 2014       | Calgary, AB                       |
| <a href="#"><u>CPA British Columbia</u></a>                                   | November 6, 7 & 10, 2014 | Victoria, Vancouver & Kelowna, BC |
| <a href="#"><u>CPA Alberta</u></a>  | November 17 & 18, 2014   | Calgary & Edmonton, AB            |
| <a href="#"><u>CPA Manitoba</u></a>   | November 20, 2014        | Winnipeg, MB                      |
| <a href="#"><u>CPA Saskatchewan</u></a>                                       | November 20-21, 2014     | Regina & Saskatoon, SK            |
| <a href="#"><u>Financial Management Institute of Canada</u></a>               | November 25, 2014        | Ottawa, ON                        |

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## WHAT'S NEW

### *PSA Discussion Group*

A [Report on the Public Meeting on May 6, 2014](#) is posted online. It provides details about the discussions on:

- presentation of remeasurement gains and losses;
- the modified equity method;
- shared risk retirement benefit arrangements; and
- constructive obligations and transfers expense.

You can also search [online](#) for information about a topic discussed in past PSA DG meeting(s).

### *Non-authoritative Guidance Issued for paragraph PS 2120.31*

Accounting Changes, paragraph PS 2120.31, states that an issue raised with the entity by its auditor in one period, but not corrected by the entity until a subsequent period, is not an error. The issue would be accounted for in the period in which the correction is made.

A recent update (Issue No. 12) to “[Reporting Implications of New Auditing and Accounting Standards](#)” provides non-authoritative guidance on how the auditor would report on financial statements containing a correction in accordance with paragraph PS 2120.31 in Q&A 1(j).

### *CPA Magazine Article*

An article entitled, “[Canada's Public Sector Financial Reporting: a Look at Pensions](#),” was published in the May 2014 issue of the CPA Magazine.