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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 Canadian entities in the public sector
- Contributing to the development of internationally accepted public sector financial reporting standards

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

UPCOMING PSAB MEETINGS

- March 21-22, 2013
- June 12-13, 2013
- September 23-24, 2013
- December 12-13, 2013

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) finished off 2012 with the approval of several documents at its December 2012 meeting, including the terms of reference and operating procedures of the Public Sector Accounting Discussion Group. Recruitment for members is now underway.

PSAB also started its 2013-2014 planning process and approved a draft Work Plan based on strategies and objectives identified in its draft 2013-2016 Strategic Plan.

PSAB approved amendments to the financial instruments standard regarding income on externally restricted assets (see [Highlights of New Standards](#) for more information) and the following three [documents for comment](#):

- An exposure draft proposing to amend Section PS 2125, *First-time Adoption by Government Organizations*, to clarify the transitional requirements when government organizations adopt new standards in the same period they transition to public sector accounting standards. PSAB recognizes that it may need to deliberate whether Section PS 2125 should remain in the CICA Public Sector Accounting (PSA) Handbook after 2013 when government organizations complete their transition to public sector accounting standards.
- An exposure draft proposing to amend the Introduction to Public Sector Accounting Standards under phase 1 of the PSA Handbook Terminology project. The definitions proposed in the document will help distinguish between government organizations and entities that are component parts of a government. It also includes proposed guidance on which accounting standards these entities and government partnerships should follow to prepare their general purpose financial statements.
- A statement of principles on restructurings such as amalgamations and transfers of programs or operations.

The Board-approved due process procedures were improved with several updates, such as including an analysis of effects of new standards in issues analysis and basis for conclusions documents, and extending the comment period to 90 days for most documents for comment. The due process document will be available online.

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PSAB also considered a request to clarify the effective dates for adoption of Sections PS 3450, *Financial Instruments*, and PS 2601, *Foreign Currency Translation*. The Board confirmed that its intent was to give new adopters extra time for implementation.

It may also interest some PSAB stakeholders that the International Accounting Standards Board recently decided to develop an interim standard on accounting for rate-regulated activities. The proposal is expected to permit “grandfathering” of existing recognition and measurement policies for entities that recognize regulatory assets or regulatory liabilities in accordance with their local accounting requirements, with specific presentation and additional disclosure requirements. Read the [IASB Update December 2012](#) for more information.

Last but not the least, I want to wish you all a prosperous 2013, as well as a smooth and successful transition to public sector accounting standards for government not-for-profit organizations.

Rod Monette
Chair, Public Sector Accounting Board

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HANDBOOK SECTION – STANDARDS ON DISCLOSURE OF ACCOUNTING POLICIES

Section PS 2100, *Disclosure of Accounting Policies*, provides guidance on the selection of appropriate accounting policies when alternatives are available. The Section also provides guidance on what, where and how accounting policies should be disclosed in the financial statements of public sector entities.

What constitute accounting policies?

Accounting policies are the specific accounting principles used by an entity and the methods for applying those principles. Accounting policies include the source of the basis of accounting used in the financial statements in accordance with the Introduction to Public Sector Accounting Standards. They also contain the specific accounting policies applied to a particular financial statement item, transaction and event.

How should an entity select its accounting policies when alternatives are available?

Accounting policies should be selected to produce a fair presentation of financial information that reflects the financial reality of transactions and events. General considerations involved in the selection of appropriate accounting policies include prudence, substance over form, and materiality.

Selecting accounting policies with prudence requires dealing with inevitable uncertainties surrounding transactions. It's important to choose policies that would result in unbiased information.

Appropriate accounting policies would account for transactions and events based on their substance rather than form, and take into account the significance of an item to financial statements users.

Why is disclosure of accounting policies needed?

A number of alternative accounting policies may be applied to similar items producing significantly different financial results. Providing a description of the accounting policies used by an entity is necessary for users to interpret the financial statements and make meaningful comparisons with those of similar entities.

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However, disclosure of accounting policies is not a substitute for selecting accounting policies that result in appropriate and adequate information. Inappropriate accounting policies can result in reporting misleading information in the financial statements.

What information about accounting policies should be disclosed?

As a minimum, disclosure of information on accounting policies should identify and describe:

- the reporting entity on which the financial statements report (for example, for consolidated financial statements, the method of consolidation and the basis for including and excluding related entities);
- the source of the basis of accounting used in accordance with the Introduction to Public Sector Accounting Standards in a statement that indicates that the financial statements were prepared in accordance with Canadian public sector accounting standards; and
- the specific accounting policies selected and applied to significant assets, liabilities, revenues and expenses (for example, tangible capital assets, employee future benefits, contractual obligations).

Also, terms used that may not be readily understood by financial statements users should be defined.

Where and how accounting policies should be disclosed?

All significant accounting policies of an entity should be disclosed together in one place to provide financial statements users an easily accessible overview. As an integral part of the financial statements, they may be disclosed as:

- a separate summary cross-referenced to the financial statements; or
- the first note to the financial statements.

Descriptions of the accounting policies should be clear and concise to facilitate understanding and consistent interpretation. They would not include amounts, analytical data, or cross-references to specific items as such information would be included in other notes to the financial statements.

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HIGHLIGHTS OF NEW STANDARDS

The Public Sector Accounting Board (PSAB) approved amendments to Section PS 3450, *Financial Instruments*, to align the reporting of income on externally restricted assets that are financial instruments with the requirements in Section PS 3100, *Restricted Assets and Revenues*. Transitional issues that can arise when these amendments are adopted are also addressed.

Although the approved wording differs from that proposed in the Exposure Draft, “Financial Instruments: Income on Externally Restricted Assets,” PSAB concluded that the final wording does not represent a significant change.

The amendments clarify that paragraphs PS 3100.11-12 apply when accounting for:

- a change in the fair value of a financial asset in the fair value category that is externally restricted;
- income attributable to a financial instrument that is externally restricted; or
- a gain or loss associated with a financial instrument that is externally restricted.

These amendments recognize the importance of the nature of restrictions and the terms of contractual agreements in reporting such transactions and events when externally restricted assets and income are involved.

Amendments to the transitional provisions clarify that an entity recognizes the following amounts as a liability at the beginning of the fiscal year that Section PS 3450 is first applied:

- any adjustment to the previous carrying amount of a financial asset that is externally restricted; and
- any accumulated other comprehensive income associated with items previously categorized as available for sale and generating externally restricted income.

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PROJECT STATUS

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

[Appropriations](#)

PSAB reviewed responses to its Exposure Draft on use of appropriations.

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[Concepts Underlying Financial Performance](#)

PSAB received a report on the outreach and consultation activities undertaken and feedback received regarding its task force's Consultation Paper 2, "Measuring Financial Performance in Public Sector Financial Statements," since its September 2012 PSAB meeting. Consultation with more stakeholder groups will continue in 2013.

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[Joint Not-for-Profit Organizations](#)

PSAB reviewed a second draft of a statement of principles for changes to the standards for not-for-profit organizations in the "PS 4200 series" of Sections. Both the Accounting Standards Board and PSAB agree with the principles but requested that further work on the supporting text be provided. The proposed principles for not-for-profit organizations in the public sector:

- recognize contributions consistent with the liability definition;
- provide guidance on recognition and disclosure of contributed materials and services;
- report tangible capital assets consistent with Section PS 3150, *Tangible Capital Assets*, including removal of the size exemption for reporting tangible capital assets;
- account for controlled entities consistent with Section PS 1300, *Government Reporting Entity*;
- present financial statements in accordance with Section PS 1201, *Financial Statement Presentation*; and

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- report intangibles, works of art and historical treasures (including collections), and economic interests consistent with the PS 4200 series until further consideration can be performed by PSAB on these matters.

The Boards expect to approve the final text in early 2013.

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First-time Adoption by Government Organizations

PSAB approved an exposure draft proposing amendments to Section PS 2125, *First-time Adoption by Government Organizations*, to clarify the application of that Section. A transitional provisions paragraph is proposed to state that Section PS 2125 does not apply to new Sections released after Section PS 2125 was issued in the PSA Handbook in August 2010.

This proposed amendment would clarify the interaction between the retroactive application requirements in Section PS 2125 and the transitional provisions in new standards.

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PSA Handbook Terminology

PSAB approved an exposure draft proposing amendments to the Introduction to Public Sector Accounting Standards and consequential amendments to other Sections. The exposure draft proposals:

- amend the definition of a government organization to exclude entities that are component parts of a government and define a government component;
- provide additional guidance on which standards government components and government organizations would follow;
- provide guidance on which standards government partnerships would follow;
- define general purpose and special purpose financial statements; and
- clarify that the PSA Handbook does not require government components, government organizations or government partnerships to prepare general purpose financial statements.

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Related Party Transactions

PSAB reviewed responses to its Exposure Draft on related party transactions.

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Restructurings

PSAB approved a statement of principles on restructurings that addresses accounting and reporting of a wide range of restructuring activities among entities not under common or joint control. The proposed principles:

- define a restructuring transaction separate from an acquisition or a government transfer;
- recognize individual assets and liabilities transferred in a restructuring transaction at their carrying amounts with necessary adjustments;
- recognize the net assets or net liabilities transferred in opening accumulated surplus or deficit for a new restructured entity and in revenue or expense for an existing restructured entity;
- recognize restructuring-related costs as expense when incurred;
- disallow restatement of the financial position or results of operations of the restructured entity prior to the restructuring date; and
- encourage, but do not require, disclosure of information about the restructuring entities or transferred operations prior to restructuring date.

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DOCUMENTS FOR COMMENT

We want to hear from you! The following documents are online. Issues analysis document that provides the rationale for the exposure draft is also posted.

Title of Documents	Deadline for Comments
<u>First-time Adoption by Government Organizations: Transitional Provisions</u> (Exposure Draft)	February 22, 2013
<u>Amendments to the Introduction</u> (Exposure Draft)	May 3, 2013

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

The International Public Sector Accounting Standards Board (IPSASB) has issued three documents for comment. PSAB encourages Canadian stakeholders to respond directly to IPSASB on these documents.

Title of Documents	Deadline for Comments
<u>IPSASs and Government Finance Statistics Reporting Guidelines</u> (Consultation Paper)	March 31, 2013
<u>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements</u> (Exposure Draft)	April 30, 2013
<u>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements</u> (Exposure Draft)	April 30, 2013

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EFFECTIVE DATES FOR PROPOSED STANDARDS

This section summarizes the anticipated effective dates of the new and amended standards proposed in the following Exposure Drafts. The effective dates are subject to change pending PSAB's final approval of the new and amended standards; however, they provide you with advance notice to facilitate implementation planning.

Proposed Standards	Proposed effective date for fiscal years beginning on or after
Related Party Transactions	April 1, 2015 Earlier adoption is permitted
Use of Appropriations	April 1, 2015 Earlier adoption is permitted

WHAT'S NEW

Recent Handbook Update

The CICA Public Sector Accounting Handbook was updated in February 2013 with amendments to Section PS 3450, *Financial Instruments* (see [Highlights of New Standards](#)). A Basis for Conclusions document that sets out how PSAB reached its conclusions including significant matters arising from comments received in response to the Exposure Draft and how PSAB dealt with the issues raised, will be posted online shortly.

Website Resources

The Concepts Underlying Financial Performance Task Force issued its second Consultation Paper, "[Measuring Financial Performance in Public Sector Financial Statements](#)." The paper and a [webcast](#) that explains the paper and the next steps are online.

The International Public Sector Accounting Standards Board (IPSASB) has issued the first four chapters of its [Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities](#), which can be downloaded from the IPSASB website.

- Chapter 1: Role and Authority of the Conceptual Framework
- Chapter 2: Objectives and Users of General Purpose Financial Reporting
- Chapter 3: Qualitative Characteristics
- Chapter 4: Reporting entity