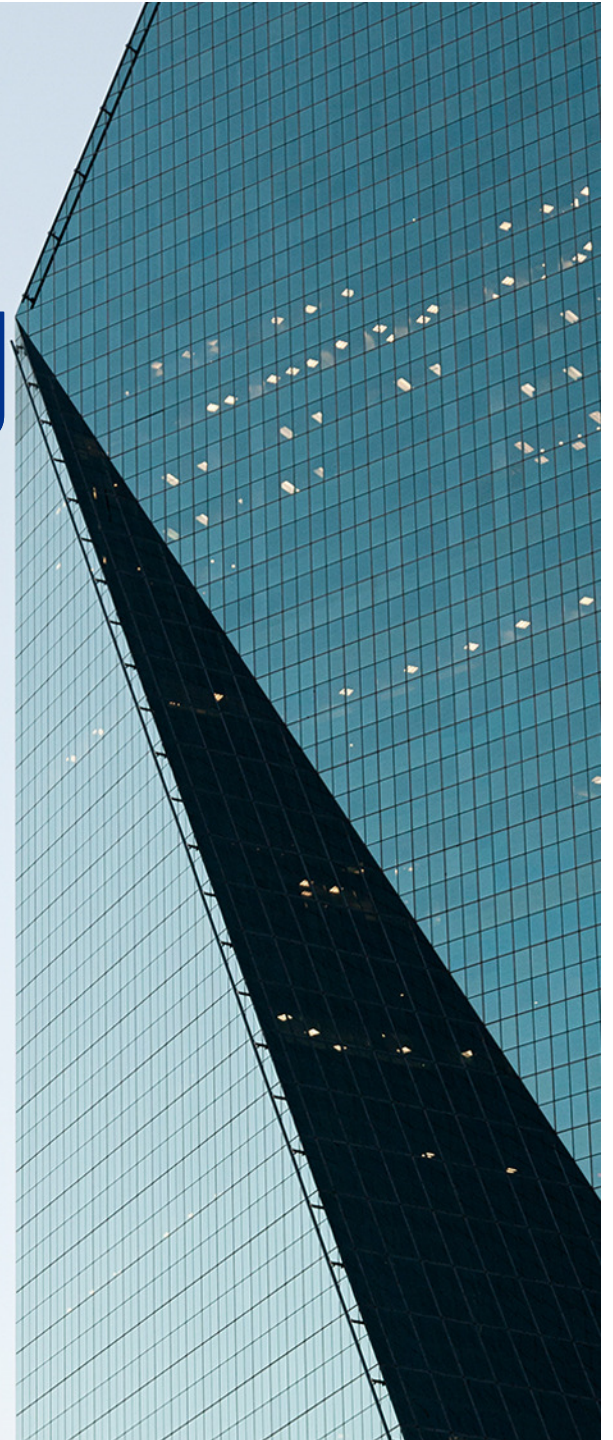




Public Sector Accounting Standards Update

Financial Management Institute

November 22, 2016



Agenda

- **PSAB Update**
- **PSA Discussion Group**
- **Update on Other PSAB Projects**





PSAB Update

Effective Dates

Date	Topic
April 1, 2019	Governments only: <ul style="list-style-type: none">- F/S Presentation PS 1201- Foreign Currency Translation PS 2601- Financial Instruments PS 3450- Portfolio Investments PS 3041
April 1, 2018	Governments and government organizations: <ul style="list-style-type: none">- Restructuring Transactions PS 3430
April 1, 2017	<ul style="list-style-type: none">- Related Party Disclosures PS 2200- Assets PS 3210- Contingent Assets PS 3320- Contractual Rights PS 3380- Inter-entity Transactions PS 3420
January 1, 2017	Government components and partnerships <ul style="list-style-type: none">- Introduction



Draft 2017-20 Strategic Plan

OVERALL OBJECTIVE - TO IMPROVE INFORMATION FOR ACCOUNTABILITY AND DECISION-MAKING

- Credible and transparent financial reporting and the systems upon which they are based are in the public interest and are paramount to improving information for assessing those entities' accountability for their decision-making and policy choices.
- Adopting independently established accounting and financial reporting standards and other guidance contribute to the quality and effectiveness of these systems.

Draft 2017-20 Strategic Plan

Strategies to Meet Objectives

1. Finalize the conceptual framework
2. Review PSAB's approach to International Public Sector Accounting Standards
3. Encourage stakeholders to support and accept our standards
4. Implement a not-for-profit sector strategy that meets the public interest
5. Develop standards that support public interest considerations (Pensions and Other Benefits; Financial Instruments; Public Private Partnerships)

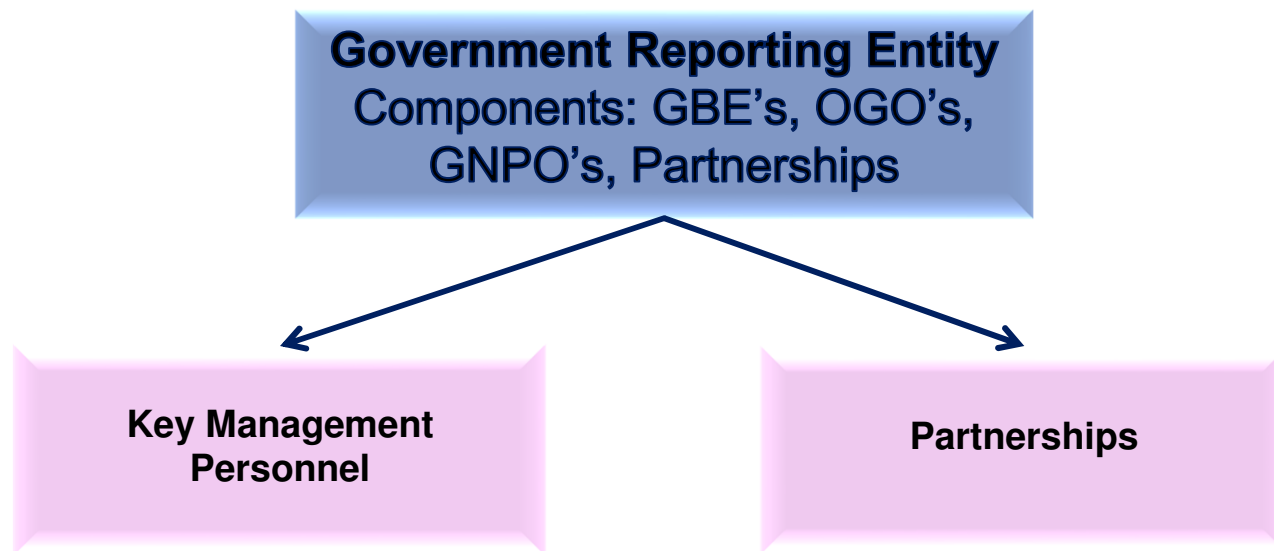
Project Highlights

- Introduction (terminology)
- Related party transactions/inter-entity
- Assets, contingent assets, contractual rights
- Restructurings
- Revenue
- Pension and other benefits

Introduction - the Roadmap

Type of Entity	Basis of Accounting
Governments and Components	PSA Handbook
GBE's	IFRS
OGO's and Partnerships	IFRS
	PSA Handbook
NPO's	PSA Handbook +/-

Related Party Transactions



Related Party Transactions

- Responses to PSAB's April 2014 Re-exposure Draft, "Related Party Transactions" indicated general support among the respondents for the proposed standards.
- Based on these responses, PSAB has approved two new Handbook Sections — Related Party Disclosures and Inter-entity Transactions
- Only transactions occurring at a value different from if parties were unrelated are required to be disclosed
- Only transactions occurring that have a material effect on the entity reporting
- Could be material for one entity but not another
- Disclose nature and extent and can include contributed goods and services at no cost

Inter-Entity Transactions

- Transactions amongst components of the Government Reporting Entity (GBE's, OGO's, GNPO's, Partnerships)
- Asset and liabilities recognized by both provider and recipient
- If policy of cost allocation then report revenue and expense at gross amounts
- Unallocated costs recognition optional
- Transactions at carrying amount unless normal course (EV), fair value consideration (EV), no or nominal amount (CV) , cost allocation (EV) or unallocated costs (CV or FV)
- Related party disclosures

Assets, Contingent Assets and Contractual Rights

- Guidance on key aspects of the definition of assets (control)
- Contingent assets disclosed when likely to result in an asset (uncertain but no existing control)
- Contractual rights to future assets and revenue (relatively certain but no existing control)

Restructurings

- Non-purchase transfers of integrated assets and liabilities and related responsibilities
- Recognized and derecognized using element definitions
- Any net asset/liability recognized in revenue or expense no restatement
- Transfer at carrying amount but recipient may need to adjust accounting policies

Revenues

- Defined in PS1000 as “... increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period”
- Statement of Principles focused on two categories of revenues: exchange transactions; and unilateral (non-exchange) transactions.
 - Reporting of contributions and appropriations excluded from scope.
 - Accounting for government transfers, tax revenues, interest, dividends, and gains and restricted assets not impacted by this project.
- Exchange transactions are distinguished based on the presence of performance obligations (enforceable promises to provide goods or services) for the public sector entity receiving the revenue.
- An exchange transaction is evaluated to identify which goods or services are distinct and accounted for as a separate performance obligation.
- Revenue from an exchange transaction is recognized as the public sector entity satisfies a performance obligation.
- Unilateral revenues (such as fines and penalties imposed by a government) are recognized when there is the authority and a past event that gives rise to a claim of economic resources.

Revenue

- Responses to the Statement of Principles were analyzed and addressed
- Scope issues with exclusions of transfers and restricted assets
- Some confusion when deciding if exchange or unilateral revenue
- More guidance on performance obligations
- Exposure Draft (ED) - Issue in Early 2017

Pension and Other Benefits

- Project objective is to review Section PS 3250, Retirement Benefits, and Section PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits.
- Key issues include:
 - deferral of experience gains and losses;
 - discount rate;
 - shared risk plans;
 - multi-employer defined benefit plans; and
 - vested sick leave benefits.

Accounting for Risk Shared Plans

- Is it a defined contribution plan or a defined benefit plan?
- PS3250.013 emphasizes the application of professional judgment:
 - a) “Because benefit plans are often complex, careful analysis and professional judgment are needed to determine whether the substance of a particular plan makes it a defined benefit or a defined contribution plan”
- Factors to be considered may include:
 - a) Level and frequency of variability in employer contributions;
 - b) Likelihood of variability in employer contributions;
 - c) Whether separate accounts are maintained for each employee;
 - d) Whether employee benefits earned in the past may be reduced;
 - e) Communications to plan members;
 - f) Existence guarantees; and
 - g) Presence of constructive or equitable obligations

Employment Benefits - Project Phases

Project Phase #1

- Deferral Provisions
- Discount Rate

Project Phase #2

- Shared Risk Plans
- Multi-Employer Plans
- Sick Leave / Other Issues

Employment Benefits - Invitation to Comment (ITC)

Phase #1 – Deferral Provisions ITC

1. Scope & Approach
2. Review Deferral Provisions
3. Actuarial Gains & Losses



Employment Benefits - Next Steps

- **Phase # 1 Deferral Provisions (ITC)**
- **Phase # 1 Discount Rate (ITC)**
- **Phase # 1 Statement of Principles (SOP)**
- **Phase # 2 Shared Risk (ITC)**
- **Phase # 2 Statement of Principles (SOP)**
- **EXPOSURE DRAFT (ED)**



PSA Discussion Group

PSADG - Purpose

Public forum discussion of the application of standards

Purpose:

- To support the work of PSAB by enabling discussion in a public venue of issues arising from the application of standards in the PSA Handbook.

PSADG does not issue pronouncements or interpretations

Discussion Group Membership

* Andrew Newman, KPMG

* Russ Jones, Office of the Auditor General of British Columbia

Desiree Kennedy, City of Kingston

Stuart Barr, Office of the Auditor General of Canada

Geoff Gatien, Department of Finance, Nova Scotia

Michael McIntyre, Membertou First Nation

Chris Bayda, Ministry of Finance of Saskatchewan

Jean-Luc Ostiguy, Deloitte

Martin Boucher, PricewaterhouseCoopers

Arn Van Iersel, British Columbia (retired)

Jim Ralston, Ottawa (retired)

PSAB staff: Bob Correll

* Board Members of PSAB



PSADG – Prep. Process

- Period for submissions prior to meeting
- PSAB staff works with submitter to clarify issues and prepare deliverables
- Agenda setting meeting to select 4-5 issues for discussion at meeting
- Submitter invited to make a short presentation to the Group

PSADG – Meetings

Typically meets twice a year (most recent session November 18, 2016)

Meetings are live, in-person

Observers are welcome

Report on the Public Meeting is prepared and published on the PSAB website

- Website also has a new searchable database of issues discussed

PSADG Chair provides meeting update to PSAB

Observers

Significant interest from observers including representatives from:

- The 6 major accounting firms
- Provincial Ministries (incl. non-finance)
- OAG
- AASB
- 1 member of PSAB
- 2 members of AcSOC
- Others

Issues Discussed

- Government Transfers
- “Shared Risk” Retirement Benefit Plans
- Accounting for GBE’s-specific scenarios
- Budget information
- Financial instruments - Section PS 3450 vs. IFRS 9 vs. ASPE
- Accounting for cloud computing arrangements
- Reporting a controlled investment entity that reports under IFRS
- Relevance of the net debt measure for govt. orgs.
- Contaminated sites
- Reporting prior period errors and impact on audit report
- Gas tax funding
- Contractual obligations

Other discussions

- Recently implemented accounting standards
- Appropriateness of Modified Equity Accounting for GBEs
- Value of SORPs
- What is the Public Interest?
- Shared control in a government partnership
- Application of the Introduction to Public Sector Accounting Standards in determining the standards to be applied by not-for-profit-organizations
- Can an Investment Holding Company be a Government Business Enterprise?

A Sample of Results

Have provided information to PSAB relating to:

- Government Transfers – implementation review
- Employment Benefits – project approval
- Asset Retirement Obligations – definition of productive use
- Conceptual Framework taskforce – FS presentation & net debt

ASB: Identified an issue on audit reports relating to prior period errors which ASB provided additional guidelines on.



Other Project Updates

Public Private Partnerships (P3's)



P3's - Key Issues

- 1. Project Scope**
- 2. Recognition Criteria**
- 3. Measurement**

Statement of Principles (SOP) - Issue Mid 2017

ARO's - Key Issues

1. Asset Retirement Obligations Project Scope

- Type of obligation
- Should the scope be broader

2. Capitalize or Expense

Asset Retirement Obligations

- Reporting of obligations associated with the retirement of tangible capital assets
- Costs directly attributable added to tangible capital assets
- Amortized to expense on a component basis
- Best estimate measurement
- Recoveries not netted against liability
- Will provide meaning of productive use in Exposure Draft
- **Exposure Draft (ED) - Issue in Early 2017**

Conceptual Framework - Key Issues

Conceptual Framework

1. Issued 3 Consultation Papers
2. Introduce 8 New Chapters
3. Replace 2 Handbook Sections:
 - Financial Statement Concepts
 - Financial Statement Objectives
4. Develop a New Reporting Model

Revise Section: Financial Statement Presentation

Statement of Principles - Issue in Early 2018



Government Transfers

- **Government Transfers Post-implementation Review**
- **Two Main Issues:**
 1. Authority to Pay
 2. Recipient Capital Transfers

Financial Instruments - Key Issues

- **Staff Meetings with Stakeholders**
- **Understand Challenges in Applying Standards**
- **Evaluate a Hedging Option**



Thank you



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