

# Basis for Conclusions

## Amendments Arising from the Adoption of IFRSs: Withdrawal of Section PS 3800 and Removal of Appendix B from the Introduction

June 2010

# PSAB

## FOREWORD

CICA Public Sector Accounting Handbook Revisions Release No. 30, issued in June 2010, covered the withdrawal of GOVERNMENT ASSISTANCE — APPLICATION OF CICA HANDBOOK – ACCOUNTING SECTION 3800, Section PS 3800, and removal of Appendix B from the Introduction to Public Sector Accounting Standards.

The primary objective of a Basis for Conclusions document is to set out how the Public Sector Accounting Board (PSAB or the Board) reached its conclusions. As well, it sets out significant matters arising from comments received in response to the proposals exposed and indicates how PSAB has dealt with the issues raised.

These documents are intended to assist financial statement users, preparers, auditors and other parties interested in public sector financial reporting in understanding the rationale followed by PSAB when developing or removing a standard.

This document has been prepared by staff of PSAB. This document does not form part of the CICA Public Sector Accounting (PSA) Handbook nor is it part of public sector generally accepted accounting principles (GAAP).

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**BACKGROUND**

- 1 In December 2009, the Public Sector Accounting Board (PSAB) amended the Introduction to Public Sector Accounting Standards directing government business enterprises and allowing other government organizations to apply the standards applicable to publicly accountable enterprises in the CICA Handbook – Accounting. Publicly accountable enterprises will follow International Financial Reporting Standards (IFRSs) in fiscal periods beginning on or after January 1, 2011.
- 2 Prior to the decision to adopt IFRSs, the Introduction had directed government business enterprises and government business-type organizations to apply the CICA Handbook – Accounting. It also permitted other government organizations to apply that Handbook. Following the CICA Handbook – Accounting meant applying GOVERNMENT ASSISTANCE, CICA HANDBOOK – ACCOUNTING Section 3800.
- 3 GOVERNMENT ASSISTANCE — APPLICATION OF CICA HANDBOOK – ACCOUNTING SECTION 3800, Section PS 3800, limited the application of certain aspects of GOVERNMENT ASSISTANCE, Section 3800 to these government organizations. Specifically, it limited the options within Section 3800 by requiring these organizations to follow the deferred revenue approach and did not permit deducting the assistance from the cost of the related asset.
- 4 Recognizing that, in some circumstances, government assistance may not be revenue, Section PS 3800 also provided guidance for when it could be considered contributed surplus. It noted that if a government business enterprise or government business-type organization was selling goods and services and was self-sustaining from those sales, then, in certain circumstances, government assistance could be treated as contributed surplus. Because of the self-sustaining requirement, treating government assistance as contributed surplus did not apply to other government organizations. For these organizations, government assistance would be accounted for as a revenue item rather than as an equity item.
- 5 In addition, Appendix B of the Introduction required these government organizations applying the CICA Handbook – Accounting to apply SOLID WASTE

LANDFILL CLOSURE AND POST-CLOSURE LIABILITY, Section PS 3270. At the time Section PS 3270 was issued, there was no similar guidance in the CICA Handbook – Accounting. Given a lack of specific guidance, PSAB directed those government organizations that were applying the CICA Handbook – Accounting for profit-oriented enterprises to also comply with Section PS 3270.

- 6 In essence, both Sections PS 3800 and PS 3270 were public-sector-specific overrides to the CICA Handbook – Accounting.
- 7 In 2009, PSAB approved a number of changes to its Introduction. It eliminated the category of government business-type organizations directing those government organizations that met the definition of government business enterprises to apply GAAP for publicly accountable enterprises. The revisions also permitted certain other government organizations, depending on the needs of the users of their general purpose financial statements, to apply GAAP for publicly accountable enterprises.
- 8 The major issue in this project was to determine whether PSAB should continue to override GAAP by maintaining existing Section PS 3800 and the requirement to follow Sections PS 3800 and PS 3270 for those government organizations that were directed to, or that had determined that, GAAP for publicly accountable enterprises was most appropriate. Maintaining the requirement to follow both of these Sections would represent an override, or alteration, to GAAP for publicly accountable enterprises.
- 9 PSAB issued an Exposure Draft, “Amendments Resulting from the Adoption of IFRSs in Canada,” proposing to eliminate these overrides as PSAB was concerned that the source of GAAP would become confused and the readers of the financial statements would not have a clear understanding of which GAAP was being applied.

## **OVERRIDING IFRSs**

- 10 The Exposure Draft proposed that PSAB would not override IFRSs. Some respondents disagreed with this position citing that PSAB was responsible for determining the source of GAAP for all Canadian government organizations. They suggested PSAB should continue its role in addressing public-sector-specific issues for Canadian government organizations and not delegate this responsibility to the International Accounting Standards Board (IASB), the body responsible for issuing IFRSs.
- 11 Other respondents were supportive of PSAB’s proposal to not override IFRSs. Government business enterprises and those government organizations that determine IFRSs to be most appropriate are not like private enterprises, not-for-profit organizations or governments. Comparability of their financial reporting with other profit-oriented organizations in the private sector is an important consideration.

- 12 The Accounting Standards Board (AcSB) decided that no additional requirements would be imposed on Canadian private sector entities that adhere to IFRSs. The AcSB was also concerned about comparability and about being clear that the general purpose financial statements had been prepared in accordance with IFRSs. From this perspective, those supporting PSAB's position indicated that PSAB should not introduce any overrides as this would result in a GAAP that was not IFRSs but a Canadian public sector version of IFRSs.
- 13 Similar to the AcSB, PSAB agreed that for those government organizations that adhere to IFRSs for purposes of preparing their own general purpose financial statements, it should be IFRSs with no exceptions.
- 14 The following reasons were cited for this decision:
- (a) Overriding IFRSs would reduce comparability of the general purpose financial statements prepared by government organizations relative to the financial reporting of similar entities in the private sector being prepared in accordance with IFRSs.
  - (b) While limiting choices available under IFRSs would not prevent an organization from complying with IFRSs, difficulties would arise if a government organization adopted policy choices available under IFRSs but not under the Canadian public sector version of IFRSs. The financial statements would be IFRSs-compliant but not compliant with the Canadian public sector version of IFRSs.
  - (c) Understandability of the basis of accounting used to prepare general purpose financial statements of government organizations that adhere to IFRSs would be reduced by introducing Canadian-imposed changes or exceptions.

## SECTION PS 3800

- 15 During the development of Section PS 3800, stakeholders were concerned that the full cost of capital assets would not be presented on the statement of financial position and the full cost of providing the program would be understated by the amount of the government assistance. As a result, PS 3800 prohibited netting the proceeds of government assistance against the cost of the related capital asset.
- 16 International Accounting Standard (IAS) 20 *Accounting for Government Grants and Disclosure of Government Assistance* allows an entity to either net the proceeds of government assistance against the cost of the related capital asset or treat the amount as deferred revenue and amortize it over the useful life of the asset.
- 17 Some respondents disagreed that PSAB should permit government organizations following IFRSs to deduct government assistance from the cost of the related capital asset.
- 18 Other respondents remained committed to the adoption of IFRSs without making exceptions.

- 19 PSAB reiterated its concern about developing a Canadian version of IFRSs for the public sector. It was also noted that the choice between netting and the deferred revenue approach is an accounting policy choice that is made by the organization or the controlling entity. PSAB noted that there is nothing that prevents an organization from adopting the same accounting policy as it would under Section PS 3800. The accounting policy choice should be determined considering the qualitative characteristics of general purpose financial statements.
- 20 Introducing Canadian-imposed requirements to IFRSs by limiting reporting options would result in the financial statements of these government organizations being prepared in accordance with a Canadian public sector version of IFRSs that would no longer be IFRSs.
- 21 PSAB noted that for those other government organizations following the PSA Handbook, there is sufficient guidance on this matter elsewhere in the Handbook. Guidance on accounting for a type of government assistance is included in TANGIBLE CAPITAL ASSETS, paragraph PS 3150.05(b) that indicates government grants are not to be netted against the cost of the related tangible capital asset. Guidance on government transfers, another type of government assistance, is included in GOVERNMENT TRANSFERS, Section PS 3410.
- 22 Some respondents were concerned that the withdrawal of Section PS 3800 would leave the PSA Handbook lacking guidance on when government assistance could be treated as contributed surplus.
- 23 PSAB concluded that the guidance in Section PS 3800 on government participation in the ownership of an entity was not required for those other government organizations following the PSA Handbook. This Section applied only to those government organizations following the CICA Handbook - Accounting. Contributed surplus is appropriate in certain circumstances for government organizations of a self-sustaining nature. It would not be expected that government assistance or participation in a government organization that is not self-sustaining would be accounted for as contributed surplus.
- 24 Therefore, PSAB decided to withdraw Section PS 3800 from the PSA Handbook.

## **ADDITIONAL REQUIREMENTS**

- 25 Some respondents were concerned that IFRSs do not provide guidance in areas on which the PSA Handbook has, such as accounting for landfill sites in Section PS 3270. Respondents indicated that guidance on such topics would produce more meaningful reporting and reduce the application of judgment by government organizations adopting IFRSs.
- 26 The majority of respondents agreed with the proposal to not impose additional requirements on government organizations within IFRSs and to remove Appendix B from the Introduction. Respondents indicated that not imposing additional requirements was consistent with PSAB's prior decision to direct certain

- government organizations to IFRSs and consistent with the position taken by the AcSB regarding not developing a made-in-Canada version of IFRSs.
- 27 PSAB noted that for topics not specifically addressed by IFRSs, government organizations would deal with such topics in the same manner as would other entities following IFRSs. The government organization would refer to another source of GAAP, including the PSA Handbook or International Public Sector Accounting Standards (IPSASs), in areas where IFRSs are silent.
- 28 Section PS 3270 imposed an additional requirement on those organizations following the CICA Handbook – Accounting. PSAB agreed that government organizations would now follow IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* under IFRSs and, using the GAAP hierarchy, could refer to Section PS 3270 where IFRSs are silent.
- 29 After consideration of the responses and the issues raised, PSAB approved the removal of Appendix B from the Introduction, determining that it would not impose additional requirements on government organizations following IFRSs.

## CHOICES OFFERED UNDER IFRSs

- 30 Some respondents were concerned that IFRSs provide too many accounting policy choices that should not be available for those government organizations applying IFRSs. They indicated that allowing choices would reduce the comparability of financial statements between government organizations and result in financial reporting that do not appropriately reflect the operations of the government organization.
- 31 PSAB had previously determined that IFRSs, in their entirety, are most appropriate for certain types of government organizations based on the nature of their operations. Limiting accounting choices available under IFRSs was considered to be developing a Canadian public sector version of IFRSs, which was not the desire of the Board.
- 32 Accounting policies for a government organization are determined by the government organization, often in conjunction with its government reporting entity. Government organizations should be selecting accounting policies that best represent their operations and best present this information to their financial statement users. For example, a government organization following IFRSs would now, follow the guidance in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* regarding accounting for government assistance as income. If presenting government assistance on a net basis does not properly present to their financial statement users the nature of their operations, government organizations following IFRSs should not be selecting this accounting policy option.

## NEED FOR IMPLEMENTATION GUIDANCE

- 33 Some respondents indicated PSAB should provide guidance to government organizations adopting IFRSs. It is not proposed that implementation guidance be issued for government organizations adopting IFRSs as these government organizations are commercial in nature. It is suggested that commercial-type government organizations refer to guidance provided by the IASB and the AcSB on the adoption of IFRSs.