

Financial Reporting by Certain Government Organizations (Amendment to Introduction)

July 2009

**COMMENTS MUST BE RECEIVED BY
AUGUST 7, 2009**

This Exposure Draft is issued by the Public Sector Accounting Board. The members of the Board are drawn from government, legislative auditors, public accounting, business and academe. All members serve as individuals and not as representatives of their governments, employers or organizations.

Individuals, governments and organizations are invited to send written comments to the Board on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

All comments received will be available on the website at www.psab-ccsp.ca ten days after the comment deadline, unless confidentiality is requested.

To be considered, comments must be received by August 7, 2009, addressed to:

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A PDF [response form](#) has been posted with this document to assist you in submitting your comments. Alternatively, you may send comments by e-mail (in Word format), to: ed.psector@cica.ca

Highlights

The Public Sector Accounting Board (PSAB) proposes, subject to comments received on this Exposure Draft, to revise the Introduction to Public Sector Accounting Standards (the Introduction). Other material in the Public Sector Accounting Handbook (PSA Handbook) will also be revised as a consequence of the proposed changes. These revisions would apply to all government organizations.

Main features of the Exposure Draft

The main features of this Exposure Draft are as follows:

- Government business enterprises (GBEs), when preparing financial statements for their own purposes, would adhere to standards for publicly accountable enterprises in the private sector as determined by the Accounting Standard Board (i.e., International Financial Reporting Standards (IFRSs)) and would follow the same transitional provisions (i.e., for fiscal periods beginning on or after January 1, 2011).
- The government business-type organizations (GBTOs) classification in the PSA Handbook would be eliminated. Government organizations that are currently classified as GBTOs would be categorized as either other government organizations (OGOs) or government not-for-profit organizations (GNFPs).
- OGOs would generally base their financial reporting on the PSA Handbook. However, in certain cases, IFRSs may be a more appropriate basis of accounting. OGOs would determine their most appropriate basis of accounting. The Exposure Draft provides factors that should be considered by an OGO as to whether IFRSs are the most appropriate basis of accounting. OGOs that determine IFRSs to be the most appropriate basis of accounting for their organization would follow the same transitional timeframe as would GBEs. OGOs that adopt the PSA Handbook would do so for fiscal periods beginning on or after January 1, 2011.
- The adoption of the PSA Handbook by OGOs would be accounted for by retroactive application with restatement of prior periods to enhance comparability.

Background

PSAB issued an Exposure Draft in 2007 that considered the source of generally accepted accounting principles (GAAP) most appropriate for GBEs and GBTOs. Based on the comments received on the Exposure Draft, PSAB revised the Introduction in February 2008 directing GBEs and GBTOs to follow IFRSs in the future.

Subsequent to this revision, a number of stakeholders raised concerns as to the breadth of application of IFRSs in the public sector. In response to these concerns, PSAB issued an Invitation to Comment (ITC) entitled “Financial Reporting by Government Organizations,” in February 2009, seeking views regarding the breadth of application of IFRSs to government organizations. Four alternatives to the status quo were included in the ITC for consideration by respondents.

There was considerable support amongst respondents to the ITC for GBEs to follow IFRSs recognizing the self-sustaining nature of these entities. IFRSs were considered to be most appropriate for government organizations that are commercial in nature.

A wide range of opinions were received regarding the appropriate basis of accounting for GBTOs due to the diverse nature of organizations being classified in this category. Many of the organizations classified as GBTOs operate similar

to government departments, and are financially dependent on the government for funding. The elimination of the GBTO classification will reduce definitional complexity. Organizations previously classified as GBTOs will now be categorized as either OGOs or GNFPOs.

Directing OGOs to the PSA Handbook, but allowing the adoption of IFRSs when determined to be the most appropriate basis of accounting, indicates the general appropriateness of the PSA Handbook for these organizations and allows IFRSs when circumstances warrant.

GAAP for private enterprises is not being included in the available basis of accounting that may be adopted by OGOs as these standards are intended for non-publicly accountable enterprises in which users of the financial statements have the ability to ask for, and generally receive, financial information in addition to that provided in the financial statements. This is not the case for government organizations.

Needs of the users of the financial statements and comparability of the financial reporting with counterparts in either the private sector or public sector should be considered in determining the appropriate basis of GAAP for OGOs. Factors that should be considered by an OGO in this determination of the most appropriate basis of accounting have been included in the Introduction. Although the lists of factors used in the assessment process are not exhaustive, they are principle based.

While some government organizations will now have more flexibility as to the basis of accounting they apply, including factors is meant to result in a more consistent basis of accounting amongst government organizations with similar circumstances.

The adoption of the PSA Handbook by OGOs would be accounted for by retroactive application with restatement of prior periods to enhance comparability.

Proposed changes to Appendix A of the Introduction reflect the removal of the GBTO classification. PSAB will review the appropriateness of Appendix B of the Introduction in light of the proposed changes in this Exposure Draft.

A change would also be made to GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.19, to explicitly refer to pronouncements published by the International Public Sector Accounting Standards Board (IPSASB) and the International Accounting Standards Board (IASB) as a source of GAAP for governments and government organizations to refer to in the absence of direction provided on specific matters by the PSA Handbook.

GBEs, and those OGOs that determine IFRSs is the most appropriate basis of accounting for their organization, should refer to the [Implementation Plan for Incorporating IFRSs](#) into Canadian GAAP and determine how the move will affect their financial reporting.

Comments requested

PSAB welcomes comments on all aspects of the Exposure Draft. Comments are most helpful if they relate to a specific paragraph or group of paragraphs, and, when expressing disagreement, they clearly explain the problem and indicate a suggestion, supported by specific reasoning, for alternative wording.

In particular, respondents are requested to provide responses to the following questions:

1. Do you agree that GBEs should adhere to IFRSs? If so, why? If not, why not?
2. Do you agree with the elimination of the GBTO classification from the PSA Handbook? If so, why? If not, why not?
3. Do you agree OGOs should be directed to determine the most appropriate basis of accounting (either the PSA Handbook or IFRSs) for their organization? If so, why? If not, why not?
4. Do you agree that OGOs need to consider the needs of their financial statements users and the comparability of their financial reporting with counterparts in either the private sector or public sector in determining the most appropriate basis of accounting for their organization? If so, why? If not, why not?
5. Do you agree with the factors to be considered by an OGO in the determination process that are included in paragraph .11 of the Introduction? If so, why? If not, why not?
6. Do you agree the adoption of the PSA Handbook by OGOs should be accounted for by retroactive application with restatement of prior periods? If so, why? If not, why not?
7. Do you agree with the transition dates proposed for adoption of IFRSs and the PSA Handbook by government organizations? If so, why? If not, why not?
8. Are there any additional matters that you feel may be relevant to this topic that need to be considered?

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PROPOSAL

The Introduction to Public Sector Accounting Standards would be amended as indicated below. Additional text is denoted by underlining and deleted text by strikethrough. Certain paragraphs that do not contain changes have been included for context. Other paragraphs that have not changed have been excluded from this Exposure Draft.

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APPLICATION

- .03 For purposes of applying these standards, “public sector” refers to federal, provincial, territorial and local governments, government organizations, government partnerships, and school boards.
- .04 Government organizations¹ are organizations that are controlled by the government. Government organizations are included in the reporting entity. GOVERNMENT REPORTING ENTITY, Section PS 1300, provides guidance on the interpretation and application of control.
- .05 These standards apply to all governments unless specifically limited in individual Sections.^{2†}
- .06 ~~Unless otherwise directed to specific public sector standards,²~~ For purposes of their financial reporting:
 - (a) ~~government business enterprises³ and government business-type organizations³ are deemed to be publicly accountable enterprises and should adhere to the standards applicable to publicly accountable enterprises⁴ in the CICA Handbook – Accounting; and~~
 - (b) government not-for-profit organizations should adhere to the standards for not-for-profit organizations in the CICA Handbook – Accounting.

¹ Appendix B sets out public sector accounting standards applicable to government business enterprises, ~~government business-type organizations~~, government not-for-profit organizations and other government organizations.

^{2†} Although specifically applicable to governments, standards may be applied to school boards if considered appropriate.

³ Government business enterprises should follow the same transitional provisions as determined by the Accounting Standards Board for publicly accountable enterprises. Government business enterprises should disclose this change in their basis of accounting in the periods preceding the period the change becomes effective.

³ ~~The definition of non-publicly accountable enterprises in the CICA Handbook – Accounting excludes government business enterprises and government business-type organizations.~~

⁴ ~~Government business enterprises and government business-type organizations would follow the same transitional provisions as private sector organizations determined by the Accounting Standards Board.~~

.07 A government business enterprise is an organization that has all of the following characteristics:

- (a) It is a separate legal entity with the power to contract in its own name and that can sue and be sued.
- (b) It has been delegated the financial and operational authority to carry on a business.
- (c) It sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity.
- (d) It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

(Refer to GOVERNMENT REPORTING ENTITY, paragraphs PS 1300.28-.29.)

.1208 A government not-for-profit organization is a government organization that meets the definition of a not-for-profit organization in the CICA Handbook – Accounting⁴⁵ and that has counterparts outside the public sector as defined in paragraph .03.

.0709 For purposes of their financial reporting, other government organizations ~~may generally base their accounting policies either on these standards issued by the Public Sector Accounting Board, or on the CICA Handbook – Accounting unless otherwise directed to specific public sector standards. However, in certain cases, the standards applicable to publicly accountable enterprises in the CICA Handbook – Accounting may be a more appropriate basis of accounting. Such organizations should select the basis that is most appropriate to their objectives and circumstances. Other government organizations should determine the most appropriate basis of accounting for their organization. The basis of accounting determined to be most appropriate chosen should be disclosed and consistently applied unless there is a change in circumstance.~~⁵

.10 The standards issued by the Public Sector Accounting Board are designed to meet the needs of governments. The determination of the most appropriate basis of accounting for other government organizations should reflect the needs of the users of the financial statements. Comparability of financial reporting with counterparts in either the private sector or the public sector should also be considered.

⁴⁵ FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, CICA HANDBOOK – ACCOUNTING paragraph 4400.02, defines not-for-profit organizations as entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

⁵ Other government organizations that determine standards applicable to publicly accountable enterprises are most appropriate for their organization should follow the transitional provisions determined by the Accounting Standards Board. Other government organizations that adopt the standards issued by the Public Sector Accounting Board should do so for fiscal periods beginning on or after January 1, 2011. Other government organizations that expect to change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective. The adoption of the standards issued by the Public Sector Accounting Board should be accounted for by retroactive application with restatement of prior periods.

- ~~.11~~ Factors to consider in assessing user needs and comparability include but are not limited to:
- ~~(a)~~ whether an organization has issued, or is in the process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market (for example, a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
 - ~~(b)~~ whether an organization holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses;
 - ~~(c)~~ whether an organization is a separate legal entity with the power to contract in its own name and can sue and be sued, has been delegated the financial and operational authority to carry on a business, and sells goods and services to individuals and organizations as its principal activity and substantially derives its revenue from that activity;
 - ~~(d)~~ whether an organization's operations are commercial in nature;
 - ~~(e)~~ the extent of an organization's dependence on government funding;
 - ~~(f)~~ the nature of an organization's mandate considering the organization's fundamental purpose, objectives and limitations; and
 - ~~(g)~~ the nature of an organization's assets such as the extent of its holdings of financial instruments or the nature and purpose of its tangible capital assets.

~~.0812~~ The chart included as Appendix A to this Introduction is intended to assist in applying the appropriate standards to various types of public sector entities.

~~.09~~ A government business enterprise is defined in GOVERNMENT REPORTING ENTITY, paragraph PS 1300.28:

- ~~.10~~ A government business-type organization is a government organization that has all of the following characteristics:
- ~~(a)~~ it is a separate legal entity with the power to contract in its own name and that can sue and be sued;
 - ~~(b)~~ it has been delegated the financial and operational authority to carry on a business; and
 - ~~(c)~~ it sells goods and services to individuals and organizations as its principal activity.

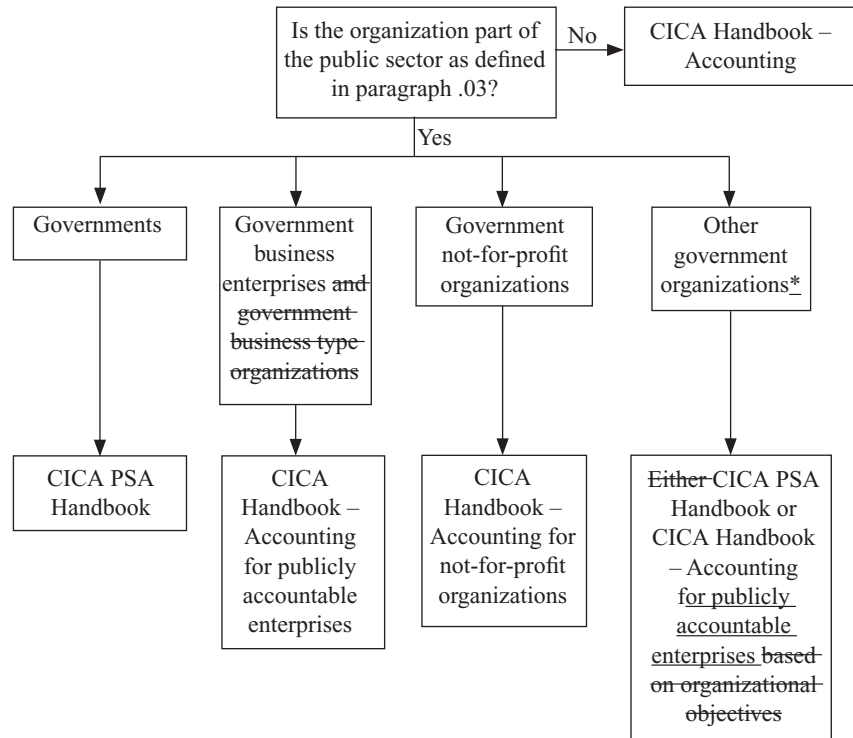
~~.11~~ Unlike government business enterprises, government business-type organizations may sell goods and services within the government reporting entity or they may rely on subsidies from the government or other organizations in the government reporting entity to maintain their operations or meet their liabilities. Sales of goods and services do not include imposed fees and penalties, such as licenses and fines.

~~.12~~ A government not-for-profit organization is a government organization that meets the definition of a not-for-profit organization in the CICA Handbook—Accounting⁵ and that has counterparts outside the public sector as defined in paragraph .03:

...

⁵ FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, CICA HANDBOOK—ACCOUNTING paragraph 4400.02, defines not-for-profit organizations as entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

APPENDIX A



* PSAB reserves the right to recommend additional or different information to meet the special circumstances of government organizations.