PSAB PUBLIC SECTOR ACCOUNTING BOARD
CONSEIL SUR LA COMPTABILITÉ DANS LE SECTEUR PUBLIC CCSP

Click here to submit

Response Questionnaire

To be considered, comments must be received by

November 14, 2011

Related Party Transactions — Recognition and Measurement

Issues Paper

PSAB welcomes comments on all aspects of the Issues Paper.
This form is not intended to constrain your response. Each text box will accommodate your full comments.
You are able to save and forward this form to others in your organization for review prior to submission.

Name: Stuart Barr

Organization: Office of the Auditor General of Canada

E-mail: stuart.barr@oag-bvg.gc.ca

1. Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?

Yes, there is a need for specific guidance on recognition and measurement of related party transactions. Such guidance will help address an increasing number of accounting issues resulting from the specific inclusion of government organizations in the PSAS accounting framework and the fact that current guidance was originally designed for governments.

2. Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?

Centrally managed assets and liabilities should be analyzed against the definitions and recognition criteria contained in the conceptual framework to conclude on whether they should be recorded on the provider or recipient's financial statements. Making this assessment is often a question of judgment and requires a careful analysis of different factors, including the facts and circumstances of the specific scenario. We therefore do not believe "central management" is the one and only factor to consider in making this assessment. Furthermore, central management can take different forms ranging from centralized logistical administration to centralized policy making, and finding a clear definition of this broad concept for accounting purpose would be a challenge in itself.

Centrally-managed assets

In the case of assets, one of the key characteristic of the definition is whether the entity controls access to the asset or to its future economic benefit. Assessing which entity meets this essential characteristic is often a question of judgment and while central management can be one of the factors considered, it should not be the only one.

If we take for example a scenario where a government has legal ownership of an asset and is responsible to maintain it throughout its useful life, and the asset is solely used by a related government organization in its own operations. Based on a careful analysis of the specific circumstances, including the various terms and conditions stipulated in a contractual agreement between the two parties, one acceptable conclusion might be that the government organization controls access to the asset's future economic benefit during its useful life and as such, the asset should be recorded in the government organization's financial statements.

Centrally-managed liabilities

In the case of liabilities, we question whether central management is the appropriate criterion to use in determining where centrally managed liabilities should be recorded. We disagree with paragraph 16 of the Issue Paper stating that "centrally managed liabilities are not present obligations of a recipient organization". There are cases where it can be argued that individual government entities have a present obligation that should be reflected in their individual financial statements irrespective of the fact that the liability is centrally administered by their government.

If a recipient can demonstrate that the three essential characteristics of liabilities (per PS1000.45) are met, then the liability belongs in its financial statements. According to PS1000.21, a reporting entity's financial statements should provide information about the cost of using its economic resources in the delivery of services. Government appropriations received by an entity are an economic resource available to the entity. There are scenarios at the federal level where a government provides annual appropriations to entities to cover certain liabilities for which certain aspects are centrally managed. In these scenarios, liabilities should be recorded in the entity's financial statements irrespective of the fact that the program might be centrally managed. This is especially true for certain employee future benefit programs. Recording such liabilities at the entity level will help users better understand future revenue (in this case, appropriation) requirements necessary to cover costs of operations, one of the users' needs listed at PS1000.20(c).

Let's take as an example the federal government's severance benefit plan that provides employees of participating entities an accumulating benefit payable upon termination or retirement based on years of service and end salary levels. This program is unfunded, meaning the government or participating entities do not make contributions to set assets aside to settle the plan's liabilities. Instead, the federal government provides annual appropriations to individual entities to fund required payments under the plan for that year. While certain aspects of this liability are centrally managed, such as the establishment and management of the plan terms and the annual actuarial valuation required to measure the government's liability in accordance with PS3255, a decision was made a number of years ago to have participating entities start recording annually their respective share of the severance liability. Prior to this change, the financial statements of a plan participant did not at all reflect the cost the entity incurs over the years as its employees render services and earn the right to the benefit. However, PS3255 is very clear for accumulating employee benefits that an obligation is created as employees render services. Given it is the entity that directly benefits from the employees' services (and not the central agency managing the program) such a cost is a present obligation of the entity. Furthermore, in this specific case, the government gives entities appropriations to finance payments they make to employees under this plan. The entity is therefore using its economic resources (in this case future appropriations) to settle the liability. In this case, following the central management criteria proposed in the issue paper would lead to an inappropriate conclusion.

The multiemployer pension plan example used in the issue paper is different from the above scenario and is not useful to demonstrate whether central management is the right criterion to determine what liabilities get recorded at the entity level. Multiemployer pension plans are typically funded plans and as such, participants make annual contributions using resources appropriated by the government and record an annual cost in their entity-level financial statements based on defined contribution accounting principles. In this case, similar to the severance liability example, the actuarial determination of the liability in accordance with PS3250 is centrally managed and centrally recorded. However, unlike the severance liability example, pension benefit payments and related actuarial risks are centrally managed/assumed by the government. Whether the excess of the actuarial pension liability over annual cash contributions made by participating entities is a liability of these entities can be a complex question. While PS3250 recognizes that a multiemployer plan has the characteristics of a defined benefit plan, an exemption from defined benefit accounting is provided for practical reasons, based on the presumption that sufficient information to follow the standards for defined benefit plans is normally not available. In this case, central management of the plan is the cause of insufficient information, which led to the exemption. While the defined benefit liability of the multiemployer pension plan is recorded by the central agency, individual participants do recognize in their financial statements a pension cost based on defined contribution accounting principles, which is settled out of the participant's own resources (i.e. annual appropriations).

The federal health and dental benefit plan for retired employees is another example of a centrally managed program. In this case, all benefits paid to retirees are the responsibility of the government without regard to which government entity the retired employee worked for. This is an example of a centrally managed liability that may belong in the government's financial statements rather than at the entity level if a determining factor is the fact that individual entities will not be required to settle the obligation out of their own economic resources.

Employee benefit costs financed through appropriations are considered liabilities of an entity, even though some employee benefits are centrally managed. Applying the central management criterion to employee benefits does not always work in our view.

3. Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?

As stated in our response to Question 2, central or decentralized management is not the one and only factor to consider in determining where an asset or liability belongs. Each asset and liability should be assessed against its essential characteristics contained in the conceptual framework.

4. Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?

Yes, we agree that the transfer of an asset or a liability should be derecognized by the provider and recognized by the recipient as long as all the characteristics of the elements of financial statements are present from the recipient's perspective.

Where a transfer of an asset by a government to a related government organization is a government transfer in scope of PS3410, PSAB and the task force should consider how the new related party standard will interact with Section PS3410, which already addresses recognition and measurement for such transactions.

5. Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:

(a) the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and

(b) the recipient organization would identify and report the expense at gross amounts in its separate financial statements?

Yes, we agree with this principle both from the provider and the recipient perspectives. To the extent that the services do not have to be paid for, the credit would be to a services-in-kind revenue account, and overall, the cost of service recorded would be countered by the in-kind benefit recorded.

6. Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?

We assume that the difference between this scenario and the one addressed by Question 5 above is that here goods and services are contributed to a recipient without the existence of a cost allocation policy.

We see merits in recognizing contributed goods and services in recipients' financial statements to reflect all significant resources consumed by a recipient entity in delivering its mandate. We also support restricting the recognition of contributed goods and services to those used in the normal course of operations and which would otherwise have to be purchased. The recognition of an expense would be matched with an equivalent amount reflected as a revenue-in kind, resulting in no net impact on the annual surplus/deficit. The measurement of goods-in-kind or services-in-kind received is discussed in Question 7.

7. Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?

Yes, we support the introduction of measurement standards for related parties to bring clarity and resolve inconsistent measurement approaches currently observed in practice partly due to the use of contradicting guidance found in the different secondary sources of GAAP. As mentioned above, while Canada has traditionally issued specific measurement guidance for related parties (Section 3840), there is no such guidance at the international level, where related party transactions are treated no differently than other arms-length transactions.

We also see merits in using an approach based on Section 3840 to measure related party transactions and with the principle that unless there is a substantive change in the consolidated interest in the item transferred, the transferor's carrying amount should be used. The simplification of the process for preparing and presenting consolidated financial statements of government entities is another benefit of this approach.

GENERAL COMMENTS

Click here to submit

Click here to submit

PSAB Public Sector Accounting Board
Conseil sur la comptabilité dans le secteur public CCSP

Response Questionnaire

To be considered, comments must be received by

November 14, 2011

Related Party Transactions — Recognition and Measurement

Issues Paper

PSAB welcomes comments on all aspects of the Issues Paper.
This form is not intended to constrain your response. Each text box will accommodate your full comments.
You are able to save and forward this form to others in your organization for review prior to submission.

Name: Melanie Joseph, CA, Senior Manager, National Accounting Standards

Organization: BDO Canada LLP

E-mail: mjoseph@bdo.ca

1. Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?

Yes, a standard on RP recognition and measurement would help provide useful guidance on how to account for such transactions. In particular, we disagree with the sentence in paragraph .10 which argues against the recognition of related party transactions because users of separate financial statements would be unable to rely on them as relevant information could be missing. This is not a relevant argument against implementing a recognition standard; on the contrary, a recognition standard would be more helpful to a user of separate financial statements to identify all transactions incurred including those between related parties.

2. Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?

Yes, we agree, by referring to the definition of an asset and liability according to PS.1000. If the definition of an asset is not met because the recipient organization does not control the future benefit, then no asset should be recorded by the recipient.

3. Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?

Yes, if the definition of an asset or liability is not met according to PS.1000, no asset or liability should be recorded.

4. Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?

Yes, this accurately reflects the substance of the transaction.

5. Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:

(a) the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and

(b) the recipient organization would identify and report the expense at gross amounts in its separate financial statements?

Yes, unless as mentioned in the analysis the provider is clearly acting as an agent, in which case net reporting would be acceptable. We believe that the accounting treatment for these types of transactions would be properly reflected by incorporating the guidance from EIC-123 Reporting Reveune Gross as a Principal Versus Net as an Agent.

6. Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?

Yes, we agree. Similarly to the accounting treatment for contributed goods and services for an NPO, we believe that contributed goods and services should be recorded at fair value unless fair value is not readily attainable, in which case simple disclosure would be sufficient. The reason for this is that often, it is difficult to determine the fair value because there is a lack of comparable services offered to unrelated third parties, where evidence of fair value can be more easily obtained.

7. Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?

Yes, we agree because currently entities already look to Section 3840 when determining how to account for related party transactions. We agree that this measurement standard would provide useful guidance and would be relevant for a user to understand. In addition to the measurement standard, we believe that a required disclosure in the financial statements should be the original cost or net book value. The reason for this is that for example, if an asset is transferred to a related company and the carrying amount is used, the original net book value may no longer be tracked by the separate entities but would be needed by a parent on consolidation.

GENERAL COMMENTS

None.

Click here to submit

PSAB Public Sector Accounting Board
CCSP Conseil sur la comptabilité dans le secteur public

Cliquez ici pour soumettre le formulaire

Formulaire de réponse

Pour être pris en considération, les commentaires devront être reçus d'ici **le 14 novembre 2011**

Opérations entre apparentés — Comptabilisation et évaluation

Document de réflexion

Le CCSP invite les intéressés à formuler des commentaires sur tous les aspects du document de réflexion. **Ne restreignez pas vos réponses. Chaque boîte de texte acceptera l'intégralité de vos commentaires**. Vous pouvez sauvegarder le formulaire et l'envoyer, pour examen, à d'autres personnes de votre organisation avant de le soumettre.

Nom : Marie-Claude Lamarre

Organisation : Société de Transport de Montréal (STM)

Courriel : marie-claude.lamarre@stm.info

---

1. Compte tenu de la nature et de l'étendue des points soulevés, est-ce qu'une norme sur les opérations entre apparentés devrait comprendre des indications sur la comptabilisation et l'évaluation des opérations entre apparentés?

Oui. Comme il est indiqué au paragraphe .10 du document de réflexion, si les opérations entre apparentés ne sont pas comptabilisées, les utilisateurs des états financiers distincts ne pourront se fier à ces états puisqu'il pourrait y manquer des informations pertinentes. Le fait d'inclure de telles indications dans la norme nous fournira une base à laquelle nous référer pour déterminer comment comptabiliser et évaluer les divers types d'opérations entre apparentés et permettra des traitements uniformes pour toutes les entités.

2. Seriez-vous d'accord pour que, lorsqu'une politique de gestion centralisée des actifs et des passifs est en place, seule l'entité prestataire comptabilise les actifs et les passifs?

s/o, ne s'applique pas à notre situation.

3. Seriez-vous d'accord pour que, lorsqu'une politique de gestion décentralisée est en place, l'entité bénéficiaire comptabilise seulement les actifs et les passifs dont elle est responsable?

s/o, ne s'applique pas à notre situation.

4. Seriez-vous d'accord pour que, si une opération entre apparentés donne lieu au transfert d'un actif ou d'un passif, l'entité prestataire et l'entité bénéficiaire comptabilisent toutes deux l'opération dans leurs états financiers distincts?

Oui. Cette approche est d'ailleurs en accord avec le chapitre SP 1100, tel qu'indiqué au paragraphe précédent le paragraphe .20 du document de réflexion (paragraphe non numéroté). Cette façon de procéder concorde avec nos pratiques actuelles.

5. Seriez-vous d'accord pour que, lorsqu'une opération donne lieu à la prestation de services par une partie à un apparenté et qu'une politique de répartition des coûts est en place :

a) l'entité prestataire comptabilise les actifs et les passifs, ainsi que le montant brut de la totalité des produits et des charges afférents à la prestation des biens ou des services;

b) l'entité bénéficiaire identifie les charges et les présente au montant brut dans ses états financiers distincts?

Oui, comme c'est le cas avec les opérations régulières (non apparentées) avec des tierces parties. Cette façon de faire aidera les utilisateurs à comprendre l'ensemble des activités de l'entité prestataire, tel qu'indiqué au paragraphe .23 du document de réflexion. Dans notre pratique actuelle, nous comptabilisons déjà les montants bruts plutôt que les montants nets.

6. Les apports de biens et de services devraient-ils être comptabilisés dans des états financiers distincts et, dans l'affirmative, comment devraient-ils être présentés?

s/o, ne s'applique pas à notre situation.

7. La norme sur les opérations entre apparentés devrait-elle comprendre des normes d'évaluation? Dans l'affirmative, l'approche utilisée devrait-elle être similaire à celle du chapitre 3840, en ce sens que les opérations seraient présentées à la valeur comptable, à moins qu'elles ne soient conclues dans le cours normal des activités ou qu'elles ne présentent une substance commerciale?

Oui, la norme devrait comprendre des normes d'évaluation, comme nous l'avons mentionné à la question 1 ci-dessus. Selon nous, l'approche utilisée devrait être similaire à celle du chapitre 3840. Cette approche reflète notre pratique actuelle, selon laquelle nos opérations entre apparentés conclues dans le cours normal des activités sont comptabilisées à la juste valeur. Ce type d'opérations entre apparentés représente la quasi-totalité de nos transactions entre apparentés.

COMMENTAIRES GÉNÉRAUX :

Cliquez ici pour soumettre le formulaire

Wayne Morgan
Office of the Auditor General of Alberta
Edmonton, Alberta

November 14, 2011

Tim Beauchamp, Director
Public Sector Accounting
277 Wellington Street West
Toronto, Ontario

Dear Mr. Beauchamp,

Our response to PSAB Related Party Transactions – Recognition and Measurement Issues Paper is below:

1. Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?

Yes. The nature of the relationship between the entities, and common control within the government reporting entity, can lead to transactions whose purpose is to achieve a particular financial reporting result for a particular government organization. Current PSAB guidance is predicated on the elimination of unrealized gains/losses or similar balances at the consolidated level to produce government financial statements, without consideration on the reporting by individual units within the government reporting entity. Guidance is needed to ensure a consistent treatment of related party transactions by government organizations.

2. Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?

We agree that assets and liabilities should be recognized by the provider organization, as it will have the budget/spending authority related to these items and is appropriately accountable for their management.

While recognition by the service provider would lead to incomplete recognition of program expenses by recipient organizations, this could be addressed through disclosures in the recipient's financial statements.

3. Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?

We agree. Organizations should recognize the assets and liabilities, and related expenses, for which they are responsible.

The presumption appears to be that entities would only acquire assets or incur liabilities which relate to their areas of program responsibility. However, due to common control, government organizations may undertake transactions that they would not have undertaken if they were autonomous. Also, as a result of reorganization of government responsibilities, entities may retain responsibility for management of assets that are in use solely to support programs of another entity. It does not appear necessary to make a distinction between central or decentralized management so much as ensuring those organizations that are responsible for managing assets and liabilities (and have the relevant budget and spending authority for related expenses) are accountable for these activities and therefore recognize those assets and liabilities in their financial statements.

4. Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?

We agree. However, current PSAB standards are directed primarily to the production of government financial statements, with elimination of unrealized gains/losses on transfers between entities within the reporting entity. Guidance will be required on how these transfers should be recognized, including how the nature of the related party transaction should impact the application of standards for government transfers in PS 3410.

5. Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:
(a) the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and
(b) the recipient organization would identify and report the expense at gross amounts in its separate financial statements?

We agree that providers should recognize the cost of the services they provide on a gross basis.

6. Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?

Yes, we agree that contributed goods and services should be valued and reported in separate financial statements. While we support recognition of assets and liabilities (and related expenses) by other organizations that have been assigned responsibility for their management, this can lead to incomplete reporting of program costs by recipient organizations. This can be addressed through disclosure in the financial statements. For example, a schedule to the financial statements could present the expenses incurred by the organization, classified by significant programs/activities, plus allocated costs incurred by others for services provided to the organization. These amounts could be added together to produce a total cost for each identified program/activity.

While PSAB standards for government are silent on the valuation of contributed services, section 4210 provides useful criteria for when and how to value contributed goods or services. As well, the concept of "when reasonably measurable" should be applied.

7. Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?

Yes, the standard for related party transactions should include measurement standards. As discussed in response to question #1, PSAB standards provide limited guidance for the treatment of transfers within the government reporting entity as the resulting gains/losses will be eliminated on consolidation. Without specific guidance from PSAB, it is not clear which other reporting standards should be followed.

It is not appropriate to inflate the value of the good or service over carrying value when the goods/services have not left the overall government reporting entity – the continuity of interest concept should apply. The standard should provide guidance similar to Section 3840, recording transactions at carrying value unless they are clearly monetary transactions occurring in the normal course of operations or have commercial substance.

Thank you for the opportunity to comment.

Sincerely,

Wayne Morgan, PhD, CA, CISA

Cliquez ici pour soumettre le formulaire

PSAB PUBLIC SECTOR ACCOUNTING BOARD
CONSEIL SUR LA COMPTABILITÉ DANS LE SECTEUR PUBLIC CCSP

Formulaire de réponse

Pour être pris en considération, les commentaires devront être reçus d'ici **le 14 novembre 2011**

Opérations entre apparentés — Comptabilisation et évaluation

Document de réflexion

Le CCSP invite les intéressés à formuler des commentaires sur tous les aspects du document de réflexion. **Ne restreignez pas vos réponses. Chaque boîte de texte acceptera l'intégralité de vos commentaires**. Vous pouvez sauvegarder le formulaire et l'envoyer, pour examen, à d'autres personnes de votre organisation avant de le soumettre.

Nom : Simon-Pierre Falardeau, CA, Contrôleur des finances et André Miville, CA, directeur général de la pratique

Organisation : Contrôleur des finances - Québec

Courriel : simon-pierre.falardeau@cf.gouv.qc.ca et andre.miville@cf.gouv.qc.ca

1. Compte tenu de la nature et de l'étendue des points soulevés, est-ce qu'une norme sur les opérations entre apparentés devrait comprendre des indications sur la comptabilisation et l'évaluation des opérations entre apparentés?

À notre avis, la nouvelle norme devrait comprendre des indications sur la comptabilisation et l'évaluation des opérations entre apparentés puisqu'elles apporteraient des précisions et de l'uniformisation quant à leur traitement comptable.

Par exemple, les transferts d'immobilisations entre entités apparentées entraînent un traitement comptable différent pour le bénéficiaire et le cédant. En effet, en vertu du paragraphe SP 3410.14, le cédant constate le transfert à la valeur nette comptable alors que pour le bénéficiaire, le paragraphe SP 3150.14 stipule que les immobilisations reçues à titre d'apport doivent être constatées à la juste valeur.

Lors de la consolidation des états financiers de ces entités, le gouvernement doit ainsi annuler une transaction enregistrée à des valeurs différentes dans les livres du bénéficiaire et du cédant. Cela oblige à effectuer un suivi annuel de la portion de l'amortissement à annuler (dans le cas où la juste valeur est supérieure à la valeur nette comptable).

2. Seriez-vous d'accord pour que, lorsqu'une politique de gestion centralisée des actifs et des passifs est en place, seule l'entité prestataire comptabilise les actifs et les passifs?

Cette méthode de comptabilisation est présentement utilisée par les entités incluses au périmètre comptable du gouvernement pour la comptabilisation du coût des régimes de retraite des employés gouvernementaux.

Voici un exemple qui existe présentement dans le cas des immobilisations détenues par une entité centrale. L'entité propriétaire d'un immeuble loue celui-ci à une autre entité faisant partie du périmètre comptable. Selon les conditions du bail, l'entité qui loue l'immeuble peut devoir comptabiliser un contrat de location acquisition.

Nous sommes d'avis que seule l,entité prestataire doit comptabiliser les actifs et passifs dans certaines circonstances mais le le document de réflexion devrait être plus explicite sur le traitement comptable privilégié dans es situations.

3. Seriez-vous d'accord pour que, lorsqu'une politique de gestion décentralisée est en place, l'entité bénéficiaire comptabilise seulement les actifs et les passifs dont elle est responsable?

Nous sommes d'avis que le CCSP devrait clarifier le contenu de ces paragraphes.

Dans les cas où il existe une gestion décentralisée, il est difficile de cerner la façon dont les liens entre apparentés interviennent ou ce que le CCSP veut exprimer par le paragraphe .19.

4. Seriez-vous d'accord pour que, si une opération entre apparentés donne lieu au transfert d'un actif ou d'un passif, l'entité prestataire et l'entité bénéficiaire comptabilisent toutes deux l'opération dans leurs états financiers distincts?

Nous sommes d'accord avec cette proposition.

Au gouvernement du Québec, les transactions impliquant le transfert de propriété d'actifs et de passifs sont comptabilisés dans chacune des entités faisant partie du périmètre comptable du gouvernement. Les gains et les pertes, le cas échéant, sont éliminés lors du processus de consolidation des états financiers du gouvernement.

5. Seriez-vous d'accord pour que, lorsqu'une opération donne lieu à la prestation de services par une partie à un apparenté et qu'une politique de répartition des coûts est en place :

a) l'entité prestataire comptabilise les actifs et les passifs, ainsi que le montant brut de la totalité des produits et des charges afférents à la prestation des biens ou des services;
b) l'entité bénéficiaire identifie les charges et les présente au montant brut dans ses états financiers distincts?

A notre avis, les coûts de la prestation de service devrait être comptabilisé en fonction des coûts net assumé par chacune des entités apparentées que celui-ci soit bénéficiaire ou prestataire .

Par exemple, lors d'un "prêt" d'employé, l'entité prestataire de service serait celle qui est en lien d'emploi avec l'employé. Pour le prestataire, la comptabilisation de la prestation de service au brut entraînerait nécessairement un revenu lors d'un remboursement du coût du service . Nous sommes d'avis que ce traitement comptable serait inappropriée puisque l'objectif de cette transaction entre apparenté est davantage en lien avec le partage d'une ressource gouvernementale que la prestation d'un service à l'entité bénéficiaire.

6. Les apports de biens et de services devraient-ils être comptabilisés dans des états financiers distincts et, dans l'affirmative, comment devraient-ils être présentés?

Selon nous, seuls les apports de biens entre apparentés devraient être comptabilisés à la valeur comptable des actifs transférés que l'apport d'actif soit avec ou sans contrepartie. Et ce, afin de faciliter le travail d'élimination de ces opérations lors de la consolidation des états financiers du gouvernement.

Pour les apports de services, donc sans contrepartie, il est souvent difficile de les évaluer au prix d'un effort raisonnable. De plus, la comptabilisation de ces apports gonfle indûment les revenus et les dépenses. Pour les apports de services, nous suggérons la divulgation par voie de note de la nature des transactions effectuées.

7. La norme sur les opérations entre apparentés devrait-elle comprendre des normes d'évaluation? Dans l'affirmative, l'approche utilisée devrait-elle être similaire à celle du chapitre 3840, en ce sens que les opérations seraient présentées à la valeur comptable, à moins qu'elles ne soient conclues dans le cours normal des activités ou qu'elles ne présentent une substance commerciale?

Nous sommes d'accord avec l'intégration de directives d'évaluation dans la norme sur les opérations entre apparentés.

L'approche du chapitre 3840 du secteur privé devrait être retenue car lorsque des opérations sont conclues dans le cours normal des activités, nous sommes d'avis qu'elles devraient être comptabilisées à la valeur d'échange convenue entre les parties.

Il est cependant très important que le CCSP définisse clairement ce qu'est le cours normal des activités. Nous suggérons que le cours normal des activités soit constitué par les achats ou ventes de biens ou de services faisant partie de la mission intrinsèque de l'entité.

COMMENTAIRES GÉNÉRAUX :

Cliquez ici pour soumettre le formulaire

Treasury Board of Canada Secretariat
Secrétariat du Conseil du Trésor du Canada

Ottawa, Canada
K1A 0R5

NOV 2 5 2011

Mr. Tim Beauchamp
Director
Public Sector Accounting
The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Mr. Beauchamp:

SUBJECT: Issues Paper – *Related Party Transactions – Recognition and Measurement*

Thank you for the opportunity to comment on the Issues Paper – *Related Party Transactions – Recognition and Measurement* issued in October 2011. Overall, we support the establishment of guidance on recognition and measurement of related party transactions; however, our preference would be a Statement of Recommended Practice rather than a standard. This project will assist in the development of the Treasury Board Accounting Standard related to Departmental Financial Statements. Departments and Agencies are not stand-alone entities but rather more similar to cost centres. Departments enter into transactions with other departments on a regular basis, and guidance on how to recognize and measure these transactions would be useful.

Our comments on the specific questions raised in the exposure draft are included below.

Comments on specific questions

1. Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?

   We agree that recognition and measurement guidance would be useful to preparers of financial statements, but believe that it should be included in a

Statement of Recommended Practice rather than a standard. Although global standard-setters, with the exception of the Canadian Institute of Chartered Accountants (CICA), do not provide such guidance, we believe that there are issues specific to the government that warrant the clarification of the accounting treatment of such items. For example, there are many transactions that occur between federal government departments, such as costs of shared services or centrally-managed services, assets and liabilities. In the private sector, these transactions occur within the private sector entity and are management, planning and costing issues - they are not relevant to external reporting by the entity. Although interdepartmental transactions in the federal government are eliminated on consolidation of the government reporting entity, recognition and measurement guidance would assist in the preparation of the stand-alone departmental financial statements when they are based on Public Sector Accounting Standards (PSAS). We are concerned that the issues of departmental reporting, with respect to related party transactions, are not the same as those of the senior government entity or other government organizations (i.e. Crown corporations), and may differ between jurisdictions and, therefore, we believe that this guidance should be included as a recommended practice. By only providing recommended practices it will also mitigate the risk that accounting standards drive operational decision-making with respect to how a government manages, allocates costs, or charges for interdepartmental provision of goods and services.

2. Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?

The definitions and recognition criteria for assets and liabilities in PS 1000 *Financial Statement Concepts* should apply, as well as the recommendations on multi-employer plans provided in PS 3250 *Retirement Benefits*, to assess which department should recognize assets and liabilities for centrally managed assets and liabilities.

However, the guidance should recognize that there could be instances where no departments would qualify as a provider organization and, therefore, the assets and liabilities could be recognized only at the government entity level. It would be useful to include guidance that clarifies the applicability of these concepts to these types of centrally managed assets and liabilities. Although guidance is provided for the recipient organization, there is some ambiguity on the guidance provided for the provider organization or when trying to define the provider organization, specifically as it relates to employee future benefits. For example, a department may centrally manage, or administer, the government's pension plan. However, it may be that it is not this department that assumes "the present obligation to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits". Neither is this department assuming any risks for the pension plan if payments are made from the Consolidated Revenue Fund pursuant to statutory funding authorities.

In the case of the federal government, the pension plan sponsor is at the government entity level; the employee future benefit liability is not recognized by the department that administers or the department that manages the plan. In addition, neither of these departments is responsible for the management and investment of the plan assets; that responsibility lies with one of the government's Crown corporations. The obligation does appear at the government level in the annual financial statements, which reflects the total pension and other employee future benefit obligation for the government.

The term "sponsor" is well defined in other standards and, for clarity, should be referred to in this guidance.

3. Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?

Care must be taken by the task force in considering how to treat decentralized management of assets and liabilities within a sub-entity (e.g. departmental) level financial statements. The text in paragraph 19 relates back to the definitions in PS 1000; however, the question uses the word "responsible". It should be noted that a department can be responsible for management of an asset or liability, but the definitions of the elements of financial reporting are not met. For example, a department who manages a portfolio of loans receivable will be responsible for the collection of the receivables, monitoring and establishment of an allowance for valuation, and returning to Parliament for authority to write-off or forgive a debt, if applicable. However, this loan receivable may not meet the definition of an asset in PS1000 which requires that the department be provided with a future net cash flow given that the government operates in the context of a Consolidated Revenue Fund and the proceeds of the loan will not be available to the department to provide a future economic benefit. Therefore, we recommend that the task force carefully consider how assets and liabilities that a department has stewardship responsibility for managing should be reflected on an entity-level financial statement where the definitions of assets or liabilities, per PS 1000, are not met.

4. Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?

We agree, as long as the criteria for recognition by the recipient are met, as outlined in paragraph .20.

5. Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:

   (a) the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and
   (b) the recipient organization would identify and report the expense at gross amounts in its separate financial statements?

   We are unclear as to whether the reference in this question to "a policy to allocate costs" means that costs incurred by the provider organization are charged to the recipient organization or whether there is an allocation without charge. For example, in the federal government, certain services are provided on a recovery basis, and therefore charged to the department. Other costs are not recovered by the provider, but must be recognized as an expense and offsetting adjustment to equity by the recipient organization as a "service provided without charge".

   With respect to costs charged to a department that are recovered by the providing organization, we agree with the proposal, except that when the provider organization acts as an agent rather than as a principal in the transaction, we believe that the transaction should be accounted for by the providing organization on a net basis (as discussed in paragraphs .23-.25 of the document).

   In the federal government, certain services are provided without charge but must be recognized in the departmental financial statements. The rationale for this is to meet the government's objective of providing comparable information across departmental financial statements since these services may be charged to some departments but not others, or partially charged depending on volume. For example, accommodation services provided by Public Works and Government Services Canada are not charged to a department; however the recipient department records an expense so that their financial statements may be comparable to other departments who pay for accommodation. Since there has been no change in an asset or liability as a result of the allocation of the costs from the provider organization to the recipient, these transactions do not meet the definition of revenues and expenses in PS 1000.

   Given that PSAB considers a government department to be a government organization, the proposals should not deviate from the definitions of financial statement elements. Therefore, in order for the departmental financial statements to include the allocated costs, it is necessary to have an offsetting adjustment that reflects the fact that there has been no change in the department's net financial position. The federal government uses an equity account to record this off-setting adjustment. This Issues Paper provides no guidance on how this type of allocation should be presented. This is problematic since Public Sector Accounting Standards have no equity concept other than accumulated surplus/deficit and remeasurement gains/losses.

6. Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?

   We believe that government departments face different issues with respect to contributed goods and services versus governments and other government organizations that are legal entities. From the perspective of the departments, the contribution of such goods and services from certain departments to others is very common and is part of their normal operations.

   In the federal government, as explained above, certain services are provided without charge, but are recognized by the recipient organization, whereas others are not recognized, but this fact is disclosed in the recipient entity's financial statements. For example, the Public Service Commission does not charge other departments for language testing services and there is no recognition by the receiving department. Federal government departments are viewed as cost centres; therefore it does not always make sense to charge other departments for these contributed services from an operational perspective. Since an objective of our departmental financial statements is to demonstrate performance with respect to their programs and activities, there is no need to include services that are part of the mandate of another department. The departments should report on the aspects of the government's activities for which they are responsible. However, services provided without charge are recognized to meet the objective of comparability across departments. The decision, as to which contributed services should be recognized by the recipient, depends on the context in which the government operates and is a policy decision of the government. We do not believe that PSAB should impose a requirement to recognize services provided between departments. This is yet another example of why a Statement of Recommended Practice would be preferred as opposed to an accounting standard.

   However, when goods and services are contributed by organizations outside the legal entity, we believe that the recognition of these contributions is necessary to establish the total economic perspective of the entity.

7. Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?

   We support the fact that there should be measurement guidance for related party transactions provided by PSAB in a Statement of Recommended Practice as discussed above. At the government level, these transactions are eliminated on consolidation. At the departmental or Crown corporation level, the policy for measurement of related party transactions should be disclosed.

We agree with the proposal that the measurement approach is based on CICA Part V, Section 3840. However, the expressions "normal course of operations" and "commercial substance" should be redefined in a government context, since many of the related party transactions being considered are services provided from one department to another. For example, the definition of commercial substance focuses on future cash flows of the entity, which is not relevant for federal government departments since they use the Consolidated Revenue Fund.

We also have concerns with any potential guidance that may require intra-entity transfers of assets to be recognized at fair value. This would significantly increase the reporting burden whereby governments would have to track unrealized gains/losses recorded on the transfer of assets within the government reporting entity for preparation of the consolidated financial statements. Our position is that any intra-entity transfers of assets should be recorded at the carrying value. We also feel that transactions between related parties, under the normal course of operations and on the same terms and conditions to those transactions with unrelated parties, should be recognized at the exchange value.

We thank you again for providing the opportunity to comment on this Exposure Draft. If you have any further questions related to these comments, please do not hesitate to contact either Ms. Diane Peressini at Diane.Peressini@tbs-sct.gc.ca (613-957-9671) or myself at Sylvain.Michaud@tbs-sct.gc.ca (613-952-0886).

Yours sincerely,

Sylvain Michaud
Executive Director
Government Accounting Policy & Reporting

cc: James Ralston, Comptroller General of Canada
cc: Tom Scrimger, Assistant Comptroller General

PSAB PUBLIC SECTOR ACCOUNTING BOARD
CONSEIL SUR LA COMPTABILITÉ DANS LE SECTEUR PUBLIC CCSP

Click here to submit

Response Questionnaire

To be considered, comments must be received by

November 14, 2011

Related Party Transactions — Recognition and Measurement

Issues Paper

PSAB welcomes comments on all aspects of the Issues Paper.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name: Ron Williams, CA (Comptroller General of Finance)

Organization: Government of Newfoundland and Labrador

E-mail: rwilliams@gov.nl.ca

1. Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?

No, it is not considered necessary to include guidance on recognition and measurement of related party transactions. In fact, accounting standards should not impact how governments are organized, its accountability structures or budgetary practices. As such, it is not supported that accounting standard setters should be providing guidance on how a government allocates costs and revenues as these are the result of the structure and policy initiatives that are particular to each jurisdiction.

The Province of Newfoundland and Labrador does not view the departments as being separate "entities" but rather combined collectively within the Consolidated Revenue Fund (CRF) and generally does not record charges for services between departments. In cases where there is an interdepartmental provision of services, those services are considered cost recoveries. As a result, it is our position that a public sector entity should not be required by accounting standards to recognize transactions in its financial statements were an entity does not pay for goods and services or allocate such costs incurred in central agencies of the operations if it is not apart of of its enabling legislation or policies.

Any guidance that is issued by the PSAB should be issued as an Statement of Recommended Principle (SORP). It should be limited to disclosure of related party outside the normal course of operations at the most as this is considered adequate information for financial statement users in assessing the reporting entity. Further, for any entity preparing separate financial statements, there should be adequate guidance in other sections of the handbook regarding the recognition and measurement of transactions that can also be applied to transactions with related parties.

2. Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?

From the financial reporting perspective, the financial statements prepared by the Province of Newfoundland and Labrador (the Consolidated Revenue Fund and the Consolidated Summary Financial Statements), there is no allocation of assets and liabilities from a central management perspective. Ultimately, the Province would recognize assets and liabilities when an item satisfies the definitions and meets the recognition criteria. Government would control the economic resources from which future economic benefits are expected to be obtained. In the case of government entities, it would be assumed that the organization that controls the assets and are responsible for the liabilities would recognize them.

3. Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?

As mentioned in response to question two above, there is no allocation of assets and liabilities from a financial reporting perspective within the statements prepared by the Province of Newfoundland and Labrador. However, in a manner similar to that identified in relation to the policy of central management of assets and liabilities, the Province would recognize assets and liabilities when an item satisfies the definitions and meets the recognition criteria as per the PSA Handbook.

4. Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?

Again, as noted in response to questions two and three above, related parties to a transaction would each recognize a transaction in their separate financial statements based on the substance of the transaction and if it meets the appropriate definitions and recognition criteria in relation to the transaction. Consideration would also be given to the entity's policies regarding particular transactions.

5. Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:

(a) the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and

(b) the recipient organization would identify and report the expense at gross amounts in its separate financial statements?

No, in treatment in such cases depends on the polices and mandates of the entities involved, this is not an aspect that should be dictated by PSA Standards but rather determined by each jurisdiction. For example it may be a policy of a certain government agency to treat certain services provided to other entities as cost recoveries and as such netting would be appropriate .

6. Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?

No, contributed goods and services should not be recognized in separate financial statements. Governments often establish that certain activities are to be performed by central agencies or departments (i.e., pension management, purchasing) to improve internal processes and achieve efficiencies. It is not appropriate to recognize these costs or benefits in separate financial statements as they do not control the related assets or obligations.

7. Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?

No, any guidance on related party transactions should not include measurement. Such transactions should be reported at the value determined by government policy or the related parties unless there is a specific existing standard in the PSA handbook how particular transactions should be measured.

GENERAL COMMENTS

Click here to submit

Click here to submit

PSAB Public Sector Accounting Board
CCSP Conseil sur la comptabilité dans le secteur public

Response Questionnaire

To be considered, comments must be received by

November 14, 2011

Related Party Transactions — Recognition and Measurement

Issues Paper

PSAB welcomes comments on all aspects of the Issues Paper.
This form is not intended to constrain your response. Each text box will accommodate your full comments.
You are able to save and forward this form to others in your organization for review prior to submission.

Name: Greg MacBeth

Organization: Office of the Auditor General of Manitoba

E-mail: greg.macbeth@oag.mb.ca

1. Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?

Yes.

2. Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?

No. Excluding certain costs and liabilities (pension liability for example) would not reflect all costs and liabilities of the entity.

3. Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?

Yes

4. Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?

Yes and the transactions would be measured in accordance with the measurement standards in question #7.

5. Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:

(a) the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and

(b) the recipient organization would identify and report the expense at gross amounts in its separate financial statements?

Yes

6. Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?

Yes if they can be reliably measured.

7. Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?

Yes

GENERAL COMMENTS

I am replying on behalf of the Office of the Auditor General of Manitoba.   My comments are from the perspective of the public sector within our jurisdiction.

Click here to submit

NOVA SCOTIA
Department of Finance
Government Accounting

PO Box 187
1723 Hollis Street
Halifax, NS B3J 2N3
(902) 424-2079
bourgere@gov.ns.ca

November 30, 2011

Tim Beauchamp
Director, Public Sector Accounting
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Mr. Beauchamp,

RE: Related Party Transactions – Recognition and Measurement Issues Paper

Thank you for the opportunity to provide comments on the Related Party Transactions – Recognition and Measurement Issues Paper. We have presented our response in a format consistent with the questions posed.

1. **Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?**

   Yes. A standard is needed to ensure related party transactions are treated consistently from one entity using the PSA framework to the next. There are presumably three potential amounts that one can use to measure a related party transaction: exchange value, carrying value, and fair value. A standard is needed to decide when each of these potential measurement bases is most appropriate.

2. **Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?**

   Yes.

3. **Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?**

   Yes.

4. **Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?**

   Yes.

5. **Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:**
   (a) **the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and**

   Yes, to the extent that the provider is a principal rather than an agent.

   (b) **the recipient organization would identify and report the expense at gross amounts in its separate financial statements?**

   Yes.

6. **Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?**

   Not if the contribution is **within** the normal course of operations. If the transfer is in the normal course of operations, the zero dollar exchange value should be used. If the contribution is **outside** the normal course of operations, it should be recorded by both parties at the transferor's carrying value. The Issues Paper proposes to include guidance similar to that found in NPO standards (i.e., an entity can record the transaction at FV if it would have been purchased externally). However, , giving the "option" of recording at FV could lead to financial statement manipulation and inconsistencies from one entity to the next.

   The above argument is not meant to apply to non-reciprocal TCA transfers between related parties. It is assumed that the provisions of PS 3150 (for recipients) and PS 3410 (for transferors) would take precedence over any related party standard in these types of scenarios.

7. **Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?**

   Yes, measurement standards should be included. Criteria similar to those used in Section 3840 should be maintained but adjusted for any concepts not applicable to the public sector.

This concludes our thoughts on the Related Party Transactions – Recognition and Measurement Issues Paper. We would be pleased to discuss any questions or comments you may have with respect to this letter. To do so, please contact Jill Devanney (devannjl@gov.ns.ca) or Rob Bourgeois (bourgere@gov.ns.ca).

Regards,

Robert E. Bourgeois, CA
Director, Financial Accounting
Nova Scotia Department of Finance

Manitoba

Finance

Comptroller's Division

Comptroller's Office
715 – 401 York Avenue
Winnipeg, Manitoba R3C 0P8
Phone: 945-4919
Fax: 948-3539
E-mail: betty-anne.pratt@gov.mb.ca

November 30th, 2011

Mr. Tim Beauchamp, Director
Public Sector Accounting
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Mr. Beauchamp:

Re: Invitation to Comment: Related Party Transactions – Definition and Disclosure; Issue Paper: Related Party Transactions – Recognition and Measurement

Thank you for the opportunity to comment on these two documents. The Province of Manitoba (Province) has included responses to the Board's specific questions, in the attached appendices.

In general the Province views the definition of related parties as being too broadly scoped. According to PSAB's definition, related parties include the close family members of key management personnel of a public reporting entity. Close family members include spouses, grandparents, parents, children, brothers and sisters and their spouses. It is unrealistic to expect any public reporting entity to be able to identify a complete list of their related parties if close family members, and the entities which they also control or hold an economic interest, are included.

We appreciate the opportunity to comment on these two documents on related parties. If you have any questions or concerns related to this comments please contact the undersigned.

Yours truly,

Betty-Anne Pratt, CA
Provincial Comptroller
On Behalf of the Province of Manitoba

Appendix B

Issue Paper: Related Party Transactions Recognition and Measurement

1. *Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?*

   Given the nature and extent of related party transactions the Province agrees that a new standard should include guidance on the recognition and measurement of related party transactions. It is notable that related parties within the government reporting entity are currently using different accounting treatments for contributed services from the core government. Some controlled entities are recording contributed services at the carrying value while others are recognizing the transaction but have chosen not to measure it. This makes it impossible to perform meaningful evaluations between different related parties.

2. *Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?*

   The Province agrees where there is a policy of centralized management only the provider organization would recognize the assets and liabilities.

3. *Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?*

   The Province agrees that where there is a policy of decentralized management, the recipient would only recognize the assets and liabilities for which it is responsible.

4. *Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?*

   The Province agrees that if a related party transaction involves the transfer of an asset or liability then both the provider and recipient should record the transaction in their separate financial statements.

5. *Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:*

   (a) the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and

   (b) the recipient organization would identify and report the expense at gross amounts in its separate financial statements?

   The Province agrees that when there is a policy of allocating cost the gross accounting concept should be followed. All revenues and expenses by the provider organization should be reported at a gross basis while the recipient should also report the expense on a gross basis.

6. *Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?*

   Contributed goods and services should be measured at carrying value unless the fair value can be reasonably estimated and the goods and services are used in the normal course of the entity's operations.

7. *Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?*

   A standard on related party transactions should include guidance on measurement. Related party transactions should be measured at carrying value unless the transaction occurs in the normal course of business or has commercial substance.

PSAB Public Sector Accounting Board
CCSP Conseil sur la comptabilité dans le secteur public

Click here to submit

Response Questionnaire

To be considered, comments must be received by

November 14, 2011

Related Party Transactions — Recognition and Measurement

Issues Paper

PSAB welcomes comments on all aspects of the Issues Paper.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name: Gisele Simard

Organization: Alberta Treasury Board and Enterprise

E-mail: gisele.simard@gov.ab.ca

1. Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?

No. In most governments, recognition and measurement of related party transactions is a matter of legislation, accountability structure, budgeting practices and the mandates of the entities involved. In Alberta, for example, some services are provided and budgeted centrally without charging the recipient entities; whereas at the same time some services are charged to the recipient entities. There are also situations that the cost of services provided by a service provider is transferred to the service recipients by reducing the cost of service provider and increasing the expense of service recipient. The financial statements of the entities concerned reflect the related accountability structures and budgeting practices. These practices have been determined by the decision makers and the legislators as the most appropriate method to report on accountability. Accounting should report on accountability and should not dictate the mode of accountability.

2. Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?

No. This appears to be the prevalent practice in most jurisdictions. However, there should not be anything to prevent a government from adopting a different approach (or a combination of approaches).

3. Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?

No. Again, this appears to be the prevalent approach in most jurisdictions. However, circumstances and accountability factors in a particular jurisdictions , may justify other approaches as more appropriate.

4. Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?

No. In governments, transfers of assets and liabilities among various entities take place under 3 scenarios:
1. In the ordinary course of operations.
2. As a result of government restructuring and reorganization, and
3. Non-monetary transactions, with or without commercial substance.
It appears that there is no consistency of treatment across various jurisdictions in dealing with the above types of

transactions.

5. Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:

(a) the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and

(b) the recipient organization would identify and report the expense at gross amounts in its separate financial statements?

No. There are situations that based on a government's policy, cost allocation among various entities takes place on the basis of a shared cost assumption. Under this policy, the service providing entity transfers the related cost of each service recipient to them. As a result, the service provider only recognizes the unallocated cost and the service recipients recognize their portion of the total costs in their financial statements.

6. Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?

No. Recognition of goods and services should be a policy matter. PSAB may provide some guidance for situations where a government decides to recognize contributed goods and services

7. Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?

No. Basis of reporting on transactions between public sector entities should be a matter of the accountability structures, government policies and budgeting practices. With respect to transfer of assets, there is already some guidance in place in sections PS 3150 and PS 3410. Because of the continuity of interest and the fact that essentially there is no substantive change in the ownership of assets concerned, the current practice of measurement at carrying amount appears to be the most cost efficient approach.

GENERAL COMMENTS

None.

Thank you for the opportunity to comment.

Click here to submit

BRITISH
COLUMBIA

November 30, 2011

251801
E-mail: ed.psector@cica.ca

Tim Beauchamp
Director, Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Tim Beauchamp:

RE: Issues Paper: Related Party Transactions – Recognition and Measurement

Thank you for the opportunity to comment on the proposal for the recognition and measurement of public sector related party transactions. The views expressed in this letter reflect the views of the government of the Province of British Columbia.

Our primary concern regarding the proposals for related parties recognition and measurement is ensuring guidance is relevant to the governance models, accountability structure and policy decisions of government.

Certain examples of terminology and concepts used in the document appear in private sector GAAP, but are currently not defined in the context of public sector organizations that follow PSAB. Examples include "unrecognized transaction", "commercial substance" and "normal course of business". The appropriateness of these terms as they relate to the unique characteristics of public sector organizations should be examined; ambiguities may result in inconsistent interpretation and application across jurisdictions. For example, "normal course of operations" defined as regularly or frequently undertaken for the purpose of generating revenue is not relevant in the public sector. The other terms are discussed further in the attached responses to specific questions.

It is important that the entity definition and measurement principles addressed in the proposed Related Parties guidance are appropriate and consistent with concurrent and future projects, such as the projects on the Conceptual Framework, Terminology, Assets, Revenue, Amalgamations and Restructuring, and Appropriations. Clarity in the scope of each reporting entity (a government organization and its controlled entities) provides the parameters to assess whether a party is external to the reporting entity and informs the appropriate application of related party transaction guidance.

Application from the entity's perspective provides for each distinct entity's financial statements to report as an individual entity, or as the parent organization when there are

.../2

Application from the entity's perspective provides for each distinct entity's financial statements to report as an individual entity, or as the parent organization when there are controlled entities. Government organizations would recognize transactions from their own entity perspective, including related party transactions, without imputing a government Summary Financial Statement perspective. The relationship does not preclude an obligation at the entity level. Transactions between related entities have valid standing at the entity level even though they may be eliminated upon consolidation with a parent reporting entity.

We support principles-based recognition and measurement principles that are consistent with the conceptual framework and definitions of financial statement items. Canadian public sector accounting recognition and measurement guidance on related party transactions should reflect the substance of the arrangement and not be rules-based. Recognition and measurement standards should not apply to intra-entity transactions or transactions between departments or units, where those departments do not prepare entity level general purpose financial statements.

Any proposed recognition and measurement guidance must reflect the policy decisions and governance structures that are governments' choice of appropriate service delivery mechanisms. For instance, if a government organization is established as a centralized service delivery agency for government, accounting guidance must not define these as unrecognized related party transactions or require the allocation of centrally administered costs to other government organizations.

It should be noted that prescriptive and detailed disclosure requirements for all interactions with related parties would be onerous for preparers and would also be of limited informational value to the users of the entity financial statements.

Responses to specific questions posed in the exposure drafts are attached. Should PSAB have any comments or questions, please contact me at 250-387-6692 or by e-mail: Stuart.Newton@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at 250-356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

On behalf of the Government of British Columbia,
Sincerely,

Stuart Newton
Comptroller General

encl.

cc: Peter Milburn, Deputy Minister
Ministry of Finance

Sabine Feulgen, Deputy Secretary to the Treasury Board
Ministry of Finance

Jim Hopkins, Assistant Deputy Minister
Ministry of Finance

Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Question 1

Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?

A standard on related party transactions should include broad principles-based guidance on measurement that fairly represents the substance of the transactions between legal entities that are identified according to PS 1300. Guidance for public sector general purpose financial statements should not include allocation of assets, liabilities, revenues and expenses for departmental or management special purpose reports.

Question 2

Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?

We do not agree with a simplified rules-based approach to a measurement standard.

There are many complexities to the governance structure of such a large and multi-faceted organization that encompasses hundreds of legislated mandates and organizations. Government's decisions to centralize or decentralize specific aspects of financial management are matters of policy as provided for in legislation.

The Province of British Columbia employs a variety of governance and service delivery models and accountability structures to reflect the relationship and authority of each government organization. In BC, certain governance functions are administered centrally and the costs are not allocated across the GRE. Other central agencies that provide specific services to ministries and government organizations have a policy of charging the recipient organization. Significant assets transferred between entities within the GRE are recorded.

Each entity will recognize financial statement items based on the PSAB definitions of assets, liabilities, revenues or expenses.

Question 3

Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?

As indicated in question 2, we do not agree with a simplified rules-based approach to a measurement standard.

Whichever legal entity has an item that meets the definition of an asset or liability, will record them. The term "responsible" is not reflected in the current definition of an asset and should not be introduced in guidance on related parties as another recognition criterion.

Question 4

Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?

We agree that a related party transaction can give rise to an asset or a liability on the entity level financial statements for either the provider or the recipient, depending on the terms of the transfer.

Question 5

Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:

(a) the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and
(b) the recipient organization would identify and report the expense at gross amounts in its separate financial statements?

The proposed rules-based approach does not consider the nature of the transaction and could result in treatment that is conceptually inconsistent with a future revenue standard.

Related party transactions should be accounted for according to principles of asset, liability, revenue and expense recognition that guide all general purpose financial statement reporting. Whether revenues and expenses are recognized on a gross basis, or netted in the case of certain flow through arrangements, is dependent on the specific arrangement.

An example of a flow through arrangement is where certain contracted services are administered by one organization in government, with a mechanism for cost recovery from other related party participants in the agreement. Other circumstances may be where revenue is collected as an agent on behalf of another entity. In these cases, the inflow of funds does not meet the definition of revenue for the organization acting as an agent.

Any issues related to revenue recognition and identification of a principle or agent in an arrangement should be addressed in the upcoming future overarching revenue project that would apply to all entities that follow PSAB, and not be addressed in the related parties' project.

Question 6

Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?

The identification of goods and services recorded as transactions between government entities is a matter of policy. Central agency functions that support government organizations are not considered to be contributed services and are not allocated to the organizations. Specific asset transfers, funding agreements, and contracts for certain service delivery or space rental are examples of transactions that are recorded whether the transaction is between related parties in government, or individuals and entities outside of the government reporting entity.

Question 7

Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?

The term "normal course of operations" is more clearly understood in the context of private sector business. In public sector, normal operations encompass a broad range of public policy and delegated mandates. Everything that a government has the authority to do, whether frequent or infrequent, is within its normal course of operations. Before determining the appropriate recognition and measurement policy, a clear understanding of "normal course of operations" in the public sector is required.

"Commercial substance", under private sector GAAP, is where an entity's cash flows are expected to change significantly. This concept is also not relevant in the public sector context, as the purpose of the public sector is service delivery.

In the Province of British Columbia, significant non-exchange transactions that are not associated with an amalgamation or restructuring are measured at fair value to reflect the economic substance of the transaction. If a contribution is made to an entity for $100 million, the impact of the transaction on the financial statements should be the same whether it is in the form of land or cash. The guidance for these transactions currently exists under Government Transfers.

Ministry of Finance
Office of the Budget and Treasury Board
Office of the Provincial Controller Division
Frost Building South, 2nd Floor
7 Queen's Park Crescent
Toronto ON M7A 1Y7
Tel. (416)325-8017
Fax. (416)325-2029

Ministère des Finances
Bureau du budget et du conseil du trésor
Bureau du contrôleur provincial
Édifice Frost Sud, 2e étage
7 Queen's Park Cr.
Toronto ON M7A 1Y7
Téléphone: (416)325-8017
Télécopieur: (416)325-2029

Ontario

November 30, 2011

Mr. Tim Beauchamp
Public Sector Accounting
Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. ~~Beauchamp~~: Tim,

Re: Related Party Transactions – Recognition and Measurement (Oct 2011)

Thank you for the opportunity to respond to the Issues Paper on Related Party Transactions – Recognition and Measurement.

As indicated in Ontario's response on PSAB's Invitation to Comment on Definition and Disclosure, a related party standard for senior governments will not add value to the general purpose financial statements in meeting user needs. Ontario, like other jurisdictions, already has sufficient governance mechanisms and reporting requirements already in place to fulfill their accountability to the public related to non-arms length transactions.

With respect to ministry-level statements, Ontario's position remains the same as reflected in our response to PSAB's Statement of Principles on Entity Level Financial Statements (ELFS) in July, 2009. We do not support establishing standards on ELFS as ministries are not responsible for the government's liabilities, and do not receive dedicated revenues to fund program costs which are administered centrally, where program spending is authorized through appropriations. Rather, ministries serve as cost centres, spending within authorized appropriation limits. The province of Ontario already provides statements detailing ministry assets and expenses in our annual Public Accounts. We maintain the position that our detailed disclosure of ministry expenditures by program adequately meets the information needs of the legislature and the public.

An important consideration in assessing the Issue Paper is the transition of Government Not-For-Profit Organizations (GNFPO) to PSAB plus section 4200 which already includes a related party standard. It is uncertain how any inconsistencies between the two approaches would be resolved and accommodate the needs of government organizations that are different than government ministries. We believe that a Statement of Recommended Practice (SORP) may prove more relevant and valuable to the public sector. A SORP would allow the level of detail included in ministry-level financial reports to be decided based on the level of detail appropriate to meet user needs, while at the same time facilitating practices to enhance consistency in the method of recording and disclosing related party transactions in public sector financial reports.

A SORP for related party recognition and measurement would also provide individual ministries with the flexibility necessary to present information in a format and level of detail appropriate for as the nature of their activities as cost centres.

Yours sincerely,

Murray Lindo
ADM & Provincial Controller (A)
Office of the Provincial Controller Division

1. Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?

No. A financial accounting solution is not the appropriate approach to address management reporting requirements related to the recognition and measurement of related party transactions. The use of intercompany pricing may be used to influence operational behaviour and reporting should reflect the impact that entity has on the consolidated results.

2. Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?

We disagree as this is not an appropriate topic for General Purpose Financial Statement standards. PSAB already has standards related to asset recognition.

3. Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?

We disagree as this is not an appropriate topic for General Purpose Financial Statement standards; furthermore, PSAB already has standards related to accounting for assets based on control.

4. Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?

We agree that reciprocal accounting benefits users of financial statements, however many transactions are between entities that may not produce a full set of financial statements. In many instances, Ministries of the government require only a statement of assets and expenses (to account for the use of funds within authorized limits). We believe that transactions reported by sub entities (such as Ministries or government organizations) should be reflective on how the transactions impacts the consolidated results.

5. Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:

- **the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and**
- **the recipient organization would identify and report the expense at gross amounts in its separate financial statements?**

We disagree as this is not an appropriate topic for General Purpose Financial Statement standards. As mentioned previously, the government may allocate costs, however the Ministry may not include a statement of financial position so the assets and liabilities related to the transactions would not be presented in the Ministry financial statements. We believe that transactions reported by sub entities (such as Ministries or government organizations) should be reflective on how the transactions impact the consolidated results. A SORP for related party transaction recognition and measurement would be more appropriate method to address related party transactions

6. Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?

Ontario's position is that any contribution of goods and services received be recognized, but not as revenue in the financial results unless they provide resources to meet current expenses. An approach that recognizes certain transactions within the public sector are more clearly presented as direct change in the residual (i.e. "net assets" or "accumulated surplus") may recognize that accumulated surplus as defined in PSAB should be a financial statement element.

7. Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?

A related party recognition and measurement standard is best delivered through a Statement of Recommended Practice (SORP) to address the diverse needs of governments and government organizations. A standard that is appropriate for all entities reporting under PSAB would need to be so broad that is would be difficult to be generally accepted and applied consistently. In Ontario, specific related party information needs are already addressed through general policy note disclosures and not though detailed disclosure of specific transactions.

PSAB PUBLIC SECTOR ACCOUNTING BOARD
CONSEIL SUR LA COMPTABILITÉ DANS LE SECTEUR PUBLIC CCSP

Click here to submit

Response Questionnaire

To be considered, comments must be received by

November 14, 2011

Related Party Transactions — Recognition and Measurement

Issues Paper

PSAB welcomes comments on all aspects of the Issues Paper.

This form is not intended to constrain your response. Each text box will accommodate your full comments.

You are able to save and forward this form to others in your organization for review prior to submission.

Name: Brian Jones, Executive Director, Professional Practices

Organization: Office of the Auditor General of BC

E-mail: bjones@bcauditor.com

1. Considering the nature and extent of the issues, should a standard on related party transactions include guidance concerning recognition and measurement of related party transactions?

On balance we believe there is merit to including some limited guidance concerning recognition and measurement in the standard, however caution should be exercised as to the nature, extent and specificity of such guidance such that it minimizes speculation that might arise in the recognition/measurement process with such transactions. For the most part, robust disclosures that draw attention of users to the possible affect of related transactions to an entity's financial statements should be sufficient for users in assessing an organization's performance and financial position.

2. Do you agree that when there is a policy of central management of assets and liabilities, only the provider organization would recognize the assets and liabilities?

We agree that only the provider organization would recognize the assets (and liabilities) in circumstances where there is a policy of central management and it is clear that the provider organization assumes the benefits and risks associated with the assets (or it is clear that centrally managed liabilities are present obligations of the provider organization). However, there are circumstances in the public sector where centrally managed assets (or responsibility for a liability) resides with the recipient organization (e.g., certain non-pension employee benefits), so the Section needs to allow for these circumstances as well.

3. Do you agree that when there is a policy of decentralized management, the recipient organization would only recognize the assets and liabilities for which it is responsible?

Yes, we agree that the recipient organization would recognize only the assets and liabilities for which it is responsible and satisfies the definitions and recognition criteria.

4. Do you agree that if a related party transaction involves the transfer of an asset or liability, both the provider and recipient organization would recognize the transaction in their separate financial statements?

Yes, we agree that both the provider and the recipient organization would recognize an asset/liability transfer in their separate financial statements. However, transfers of this nature are within the scope of Section PS 3410 (transferring government) and PS 3150 (recipient), so there is a need to consider how a new related party transaction standard would interact with these sections.

5. Do you agree that when a transaction involves the provision of services by one party to a related party and there is a policy of allocating costs:

(a) the provider organization accounts for the assets and liabilities and recognizes all revenues and expenses associated with the provision of a good or service on a gross basis; and

(b) the recipient organization would identify and report the expense at gross amounts in its separate financial statements?

Yes, we agree with accounting for provision of service transactions on a gross basis since, as suggested in the Issues Paper, this helps users understand the full extent of the providing organizations's operations and the full cost-of-service for the recipient organization.

6. Should contributed goods and services be recognized in separate financial statements and, if so, how should they be reported?

Our view is that contributed/donated goods and services should be recognized in an entity's financial statements to ensure that full cost-of-service is provided. However, the recognition of such should be restricted to goods and services used in the normal course of operations and would otherwise have to be purchased by the recipient entity.

7. Should the standard on related party transactions include measurement standards? If so, should the standard adopt a similar approach to Section 3840, in that transactions would be reported at carrying amount unless they occur in the normal course of operations or have commercial substance?

We are not convinced that measurement standards are appropriate for a related party transaction standard, particularly if robust disclosure requirements provide users with the information they require to understand the impact of such transactions. While we understand the view that related party transactions should be adjusted, where necessary, to prices that would be equivalent to those that would be arrived at between arm's-length parties, this may be very difficult to achieve with any precision for many types of transactions in the public sector. Also, the possibility would remain that without the existence of related parties, different transactions might have taken place, or a transaction might not have occurred. It would be very speculative to make adjustments of this nature which may have a larger impact on the entity than a difference that might exist between a related party exchange value and an arm's-length fair value.
However, in the event that there is consensus to include measurement standards, the approach taken in Section 3840 to measure transactions at carrying amount if they do not occur in the normal course of operations or have commercial substance appears reasonable to us as it minimizes the speculation inherent in alternative measurement basis, such as exchange amounts or fair values.

GENERAL COMMENTS

Click here to submit