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PSAB MISSION

The Public Sector Accounting Board ("PSAB") serves the public interest by:

- Establishing standards and other guidance for financial reporting by Canadian entities in the public sector
- Contributing to the development of internationally accepted public sector financial reporting standards

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

UPCOMING PSAB MEETINGS

- December 15-16, 2011
- March 22-23, 2012
- June 25-26, 2012
- September 20-21, 2012

You can access [meeting agendas](#) prior to the meeting and the [Decision Summaries](#) shortly after the meeting.

MESSAGE FROM THE CHAIR



The Public Sector Accounting Board (PSAB), its task forces and staff continue to work on the priorities identified in the Board's 2011-2012 Work Plan.

The Conceptual Framework Task Force has issued its first Consultation Paper on "[Characteristics of Public Sector Entities](#)." A [webcast](#) that explains the characteristics described in the paper is posted on PSAB's website. The

purpose is to seek stakeholder input in identifying the key features of the operating environment of public sector entities and their potential implications on financial reporting. Given the influence of a conceptual framework on future standard setting, the Task Force believes that it is important to consult all stakeholders before it develops its preliminary views. A second consultation paper is expected to be released in the spring of 2012.

Many Canadian governments and stakeholders have responded to the conceptual framework documents issued by the International Public Sector Accounting Standards Board (IPSASB). I appreciate the time you have taken to provide inputs to IPSASB. This helps ensure that the Canadian views are considered at the international level. PSAB and its Conceptual Framework Task Force will also review those responses in future deliberations of our conceptual framework as part of the Concepts Underlying Financial Performance project.

The Board has made considerable progress in the development of a statement of principles on appropriations at the September 2011 meeting. In particular, the project scope has been narrowed to apply to public sector entities that access funding directly under the authority of appropriations. The Board is of the view that public sector entities that actually receive the funding or other assets through transfers would follow Section PS 3410, *Government Transfers*. Establishing this boundary would be timely for government organizations that are transitioning to the CICA Public Sector Accounting Handbook. The accounting guidance for one of their major sources of funding is now clarified.

The Board approved a revised Project Proposal on revenues at the September 2011 meeting. The objective is to provide guidance on accounting for other public sector sources of revenue such as fines and penalties, fees and licenses.

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As we approach the second half of 2011-2012, the Board identified a few projects to be included in its 2012-2013 Work Plan pending approval of a project proposal for each. At the September 2011 meeting, the Board considered stakeholder responses to a recent Project Identification Survey and inputs from a government organization advisory group over the summer. The Board also reconfirmed its 2010-2013 Strategic Plan commitment regarding non-financial statement guidance during 2012-2013.

The Board requested staff to develop four project proposals: asset retirement obligations, impairment of non-financial assets, long-term fiscal sustainability and service concession arrangements. We concluded that staff should prepare a research project proposal on long-term fiscal sustainability of government programs given the current economic environment in the public sector and the fiscal pressure faced by many governments.

On behalf of the Board, I would like to thank those of you who have provided input to our future technical agenda. Because of the timing and recent developments of other related projects, our limited resources, and other ongoing commitments and existing priorities, additional new projects were not selected by the Board at this time. You can read "[Why PSAB Did Not Consider Other Projects](#)" to find out why we did not choose other high-priority projects identified by stakeholders.

If you are involved in a government organization's transition to the PSA standards and are considering early adoption of other new PSA standards at the time of first adoption of PSA standards, you should take a look at "[Transitional Issues Related to First-time Adoption of PSA Standards](#)." PSAB appreciates the significant efforts of the various stakeholders involved in the transition to the PSA Handbook.

Nigel Bellchamber
Chair of the Public Sector Accounting Board

Learn more about PSAB members by clicking [here](#).

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CONCEPTUAL FRAMEWORK

The conceptual framework establishes criteria regarding when an item meeting the definition of asset, liability, revenue or expense should be reported in financial statements. It also describes how the value of those items should be determined.

The criteria are referred to as “recognition” and “measurement” respectively in Section PS 1000, *Financial Statement Concepts*. Recognition and measurement guidance provided in individual standards was primarily derived from the principles identified in the conceptual framework.

When is an item included in government financial statements?

The process of including an item in the financial statements of an entity is called recognition. A recognized item is represented in both words and numbers. It is described and attached with an amount (which is included in the totals) in a financial statement.

Though notes to financial statements may provide more information about items recognized in the financial statements, recognition does not mean disclosure of items in the notes. However, notes may provide information about items that cannot be recognized in the financial statements.

To be recognized as an item in the financial statements, the particular item must first meet the definition of one of the elements of financial statements (i.e., asset, liability, revenue or expense). Then, it should be assessed whether the item also meets both of the following recognition criteria.

- It is expected that future economic benefits will be obtained (in the case of an asset) or given up (in the case of a liability).
- It has an appropriate basis of measurement and a reasonable estimate of the amount can be made.

When assessing whether economic resources are expected to be obtained or given up, certainty or proof is not required. Rather, it is intended that based on available evidence, it is reasonably anticipated that the economic resources will be obtained or given up. Exercise of professional judgment would be required in determining whether the specific circumstances of an item meet the recognition criteria.

Items that meet the recognition criteria are recognized in financial statements on an accrual basis. It means that they are recorded in the period the transactions or events that give rise to the economic benefits or the obligations that require sacrifice of economic resources occur. Whether cash is received or paid during that period is irrelevant.

Senior level governments inherited many resources by right of the Crown such as Crown lands and natural resources. Though these resources meet the definition of asset, many of them are not included in their financial statements because they do not meet the recognition criteria. For similar

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reasons, intangibles, art and historic treasures are also not recognized as assets in government financial statements.

How to determine the value of items included in the statements?

The process of determining the amount of an item that is recognized in the financial statements is called measurement. One of the recognition criteria for an item to be included in financial statements is that it can be appropriately and reasonably measured. An item may be measured on a number of bases, including historical cost, replacement cost and realizable value.

Though financial statements are prepared primarily on a historical cost basis, the conceptual framework acknowledged that other bases of measurement are also used in some limited circumstances.

Under the historical cost basis of measurement, assets are initially measured at the amount of cash or cash equivalents paid for their acquisition and liabilities are initially measured at the amount of cash or cash equivalents received when the obligation was incurred. When the transaction or event that gives rise to an asset or a liability does not involve an exchange of cash or cash equivalents, their fair value is deemed to be their historical cost. For example, tax receivables are initially measured at their realizable value and contributed tangible capital assets are initially measured at their fair value.

The value of some items that are initially measured at historical cost may be reduced to a lower amount in periods subsequent to their initial recognition in the financial statements. Guidance for subsequent measurement is usually provided at the standards level. For example, temporary investments may be measured at their market value if it is lower than their historical cost. Loans receivable may be measured at their net realizable value if it is determined that a portion of it will not be collectible. Tangible capital assets with a limited life are measured at their amortized value.

Also, a present value technique may be used to determine the amount of an item if it consists of cash flows that will be received or paid in the future. This valuation technique is usually required at the standards level (for example, in the measurement of the retirement benefits obligation, liability for contaminated sites, solid waste landfill closure and post-closure liability, and the grant portion of concessionary loans and portfolio investments). However, adjusting for changes in general purchasing power is not a measurement principle in the conceptual framework.

Specific assumptions may be required to determine the amount of an item including the discount rate used for the present value calculation. Such guidance is often provided at the standards level. A general assumption included in the conceptual framework is that government will be able to realize assets, discharge liabilities and meet its statutory obligations in the normal course of operations for the foreseeable future.

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TRANSITIONAL ISSUES RELATED TO FIRST-TIME ADOPTION OF PSA STANDARDS

Government organizations transitioning to the CICA Public Sector Accounting (PSA) Handbook are faced with many decisions (for example, whether they should take the exemption options permitted in Section PS 2125, *First-time Adoption by Government Organizations*, and whether they should adopt other new PSA standards in their first PSA standards financial statements). This section explains the interaction of the transitional provisions in the various new PSA standards and the requirements in Section PS 2120, *Accounting Changes*, and Section PS 2125.

Which new PSA standards are not yet effective?

The table below summarizes the effective dates and transitional provisions of PSA standards that are not yet effective:

PSA Handbook Section	Effective date	Transitional provisions
PS 1201, <i>Financial Statement Presentation</i> PS 2601, <i>Foreign Currency Translation</i> PS 3450, <i>Financial Instruments</i>	April 1, 2012 for government organizations. April 1, 2015 for governments.	Earlier adoption is permitted. Must adopt all three standards at the same time. Prospective application except for accounting policy related to embedded derivatives in contracts, which can be applied retroactively or prospectively.
PS 3260, <i>Liability for Contaminated Sites</i>	April 1, 2014	Earlier adoption is encouraged. Apply Section PS 2120 if adoption of PS 3260 results in a change in accounting policy.
Revised PS 3410, <i>Government Transfers</i>	April 1, 2012	Earlier adoption is encouraged. May be applied retroactively or prospectively.
PS 3510, <i>Tax Revenue</i> (Generally not applicable to government organizations)	April 1, 2012	Earlier adoption is encouraged.

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How to reconcile the transitional provisions in Sections PS 2120 and PS 2125 and the new standards?

Section PS 2120 provides guidance on accounting for and disclosure of a change in an accounting policy, a change in an accounting estimate and a correction of an error relating to prior period financial statements. Conforming to new PSA standards and adoption of PSA standards for the first time from a non-GAAP basis of accounting represent changes in accounting policy. These changes may be applied retroactively or prospectively. However, Section PS 2120 does not override the specific transitional provisions regarding retroactive or prospective application in other Sections of the PSA Handbook.

Section PS 2125 only applies to government organizations adopting the PSA standards from another basis of GAAP for the first time. It requires the adoption be accounted for by retroactive application with restatement of prior periods unless exceptions or exemptions are provided.

Since Section PS 2125 does not apply to adoption of new PSA standards, a government organization that chooses to adopt new PSA standards in the same period it adopts the PSA standards for the first-time would apply Section PS 2125 for the adoption of standards that were effective at the date of first-time adoption and apply the transitional provisions in the new standards it chooses to early adopt separately. In the absence of specific transitional provisions in a new standard, a government organization would apply the general transitional guidance for a change in accounting policy provided in Section PS 2120.

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PROJECT STATUS

This section provides you with PSAB's latest discussions and decisions regarding some of its active projects. You can access a summary of PSAB's 2011-2012 Work Plan based on the 2010-2013 Strategic Plan, with the expected document approval dates of PSAB's active projects [here](#).

Additional information about the individual projects, including reasons for the project, issues to be addressed, project history, summary of major decisions and next steps of the project can be accessed [here](#).

Appropriations

PSAB discussed the principles proposed in a draft statement of principles. The Board agreed that the statement of principles would only apply to public sector entities that have access to funding directly under the authority of appropriations or the approved annual budget for local governments. Public sector entities that actually receive funding or other assets through government transfers would follow the accounting guidance provided in Section PS 3410, *Government Transfers*.

The Board supported the proposed principle for recognition of the use of appropriations (i.e., when they are authorized by the appropriate authority and eligible expenditure or expense has been incurred). Disclosure requirements for the use of appropriations were also approved.

Significant discussions were held on the issue of whether the use of appropriations is a revenue item. The Board considered current practice and related guidance in the existing conceptual framework and other PSAB pronouncements. No conclusion was reached at the meeting. The Task Force was requested to provide further analysis on three options for the Board's consideration at the December 2011 meeting:

- reporting on the statement of operations;
- reporting on the statement of financial position; and
- a choice of the two statements.

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Concepts Underlying Financial Performance

PSAB received an update on the progress of the project and a presentation on the materials covered in Consultation Paper 1, "Characteristics of Public Sector Entities." The Consultation Paper issued by the Task Force and a related [webcast](#) presented by staff are posted on PSAB's website. The senior government controllers' general and auditors' general communities were presented with the materials during the summer. Comments on the Consultation Paper will be considered by the Task Force in their development of a statement of principles.

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Revenues

The Board approved a revised project proposal and reviewed an issues paper at the September 2011 meeting. The objective of the project is to establish a framework for classifying, and principles and guidance for recognition of, a broad range of public sector revenues. Revenues unique to the public sector (in addition to tax revenue and transfers) include fines and penalties, natural resource royalties, license and permit fees. Revenues arising from the sale of goods and services in the public sector may involve accounting issues not found in the private sector because the goods and services may be provided on a cost recovery or subsidized basis.

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TECHNICAL AGENDA

This section provides you with PSAB's latest discussions and decisions regarding its technical agenda. Some of these items may become active projects after a project proposal is approved in future Board meetings.

2012-2013 Work Plan

PSAB reviewed the feedback from an advisory group regarding the relevancy of topics covered in the CICA Handbook - Accounting but not in the PSA Handbook for government organizations. The three topics identified as the most important or urgent were asset retirement obligations, contributed surplus and non-monetary transactions.

The Board considered these topics at the meeting in conjunction with the results of a Project Identification Survey undertaken in May 2011. In selecting the project for further consideration, PSAB took into account the strategies set out in its 2011-2013 Strategic Plan, and its current priorities of reviewing the conceptual framework and addressing government organizations' need for accounting guidance from the PSA Handbook.

The Board has identified the following four topics for future deliberations. This conclusion was based on preliminary assessment of: the potential benefits of undertaking these projects in terms of improving accountability and enhancing usefulness of information; the pervasiveness and complexity of the issue; and the estimated availability of staff resources. Staff is requested to develop a project proposal for each of the projects.

- asset retirement obligations;
- impairment of non-financial assets;
- long-term fiscal sustainability (research project); and
- service concession arrangements.

Accounting Standards for Private Enterprises in Part II of the CICA Handbook - Accounting provides specific guidance on asset retirement obligations in Section 3110 and on impairment of long-lived assets in Section 3063. Both governments and government organizations have identified a need for accounting guidance on assets retirement obligations.

Significant long-lived assets are held by public sector entities. Guidance on assessment and measurement of impairment that reflects the nature and purpose of these assets in the public sector would be beneficial.

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Long-term fiscal sustainability, though not identified by stakeholders as a high-priority project, was selected by PSAB as a research project to fulfill its mission and strategy to provide guidance on other information that promotes accountability and better decision making. Information about long-term fiscal sustainability has become a hot topic for citizens, decision makers and others, as governments face an increasing demand for public health care and pensions from an aging population.

Governments and their organizations indicated a need for standards in accounting for service concession arrangements as the current practice is diverse. Lack of guidance in this area has resulted in some arrangements not being reflected on the balance sheet by any of the parties to the arrangement.

PSAB thanked members of the advisory group and all respondents to the Project Identification Survey for their inputs to the Board's future technical agenda.

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WHY PSAB DID NOT CONSIDER OTHER PROJECTS

At the September 2011 meeting, PSAB selected four topics for further consideration from the list of high-priority areas identified by stakeholders in the Project Identification Survey and an advisory group (see [Technical Agenda](#)). The remaining high-priority projects and other respondent-identified projects were not selected by the Board at this time for the following reasons.

High-Priority Projects Not Selected

Borrowing cost

The Board considered other standard setters' experience in developing a similar standard and the inconsistent conclusions reflected in their standards. It concluded that the benefits of a standard in this area may not justify the costs required for its development.

Contributed surplus

Contributed surplus was described in the withdrawn Section PS 3800, *Government Assistance*, as an investment by an owner with the intention that the amount provided will increase the capacity of the entity to generate future revenues and be self-sufficient so that it will not require ongoing subsidies from the owner.

Section PS 3800 required that government assistance received by government business enterprises be accounted for as contributed surplus because, by definition, government business enterprises are self-sustaining, unless the assistance is available to all organizations. The same guidance applied to government business-type organizations if they did not require ongoing subsidies from their owner government.

As government business enterprises are directed to follow the International Financial Reporting Standards and the category of government business-type organization has been eliminated, the concept of contributed surplus generally would not apply to other government organizations that follow the PSA standards as they are not self-sustaining organizations.

Employee future benefits

At the September 2011 meeting, the Board received a staff presentation on accounting for defined benefit pensions. The focus was on other standard setters' guidance on the recognition issue of immediate recognition versus deferral and amortization, and on the measurement issue of discount rate for determining pension benefit obligations. The Board requested staff to provide further analysis on other differences between the public sector

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pension accounting standards in Canada and other national and international standards, as well as other issues PSAB may need to take into account in deciding whether it should undertake a project on this topic.

Leases

International and national standards development on this topic may result in a change in direction of lease accounting. The Concepts Underlying Financial Performance project may also have implications on accounting for leases. PSAB decided to defer consideration of this project to a later time.

Natural resource royalties

PSAB's Revenues project is intended to establish general principles and guidance that would apply to a broad range of public sector revenues including natural resource royalties. The Board does not believe a separate project on this subject is needed.

Non-monetary transactions

The Board expects that most non-monetary transactions in the public sector take place between related parties. Its current Related Party Transactions project would address these transactions. Given other priorities, PSAB did not support using its limited resources to address these occasional transactions in the public sector.

Respondent-Identified Projects Not Selected

Definition of Public Sector

The Exposure Draft on "Update of Terminology" proposes to update the current definition of public sector in the Introduction to Public Sector Accounting Standards, define "public sector entities" and clarify the applicability of the PSA Handbook to public sector entities. The Concepts Underlying Financial Performance project may also touch on this subject. PSAB does not consider a separate project on this topic is required.

Financial Statement Presentation for Public Sector Entities Other than Governments

The Concepts Underlying Financial Performance project will be reviewed from the perspectives of both governments and government organizations. The review may have implications for financial statement presentation. Initiating a project on this subject at this time would be premature.

Government Assistance

Recent developments in other PSA standards and active projects have addressed how different types of government organizations should account for assistance received from their controlling government. PSAB does not believe a standard on government assistance is necessary.

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The withdrawn Section PS 3800, *Government Assistance*, was developed to provide guidance for government organizations that follow the CICA Handbook - Accounting. Recent amendments to the Introduction to Public Sector Accounting Standards directed government business enterprises to follow International Financial Reporting Standards (IFRSs). The relevant standard for them and other government organizations that follow IFRSs would be International Accounting Standard (IAS 20), *Accounting for Government Grants and Disclosure of Government Assistance*.

At the September 2011 meeting, the Board agreed that government organizations that follow the PSA Handbook and receive funding from their controlling government through transfers should account for the resources following the guidance in Section PS 3410, *Government Transfer*. Entities that access funding directly under the authority of appropriations would follow the guidance in a future standard on use of appropriations.

Intangibles

Intangible properties are covered in Section PS 4230, *Capital Assets Held by Not-for-Profit Organizations*. This area is currently under review by the Joint Not-for-Profit Task Force. It would be premature for PSAB to initiate a project on this topic.

Public Private Partnership

Public Private Partnership is a complicated subject as there are many different types of these partnership arrangements in the public sector. PSAB decided to request a project proposal be developed on one type of public private partnership – service concession arrangements – at the September 2011 meeting.

Rate-regulated Activities

Government business enterprises that have rate-regulated activities will adopt IFRSs for fiscal period beginning on or after January 1, 2012. The Accounting Standards Board has previously expressed that this timeline will not be extended regardless of the International Accounting Standards Board's (IASB) decision on the future of its Rate-regulated Activities project. PSAB has also reconfirmed its "no IFRS override" policy. (See "[Reporting Rate-regulated Activities](#)" in the October 2010 issue of *PSAB Matters* for more background information.)

PSAB is aware of the issue of the relationship between the rate regulator and government organizations that have rate-regulated activities. The Board continues to monitor the development of the IASB project on this topic and to assess the nature and extent of rate-regulated activities government organizations may be involved in.

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Trust Funds

Legal trusts can be created for different purposes and with different arrangements. The substance of the trust arrangement and its relationship with the government determine the proper accounting for trust funds. PSAB does not see a need for a separate standard in this area as its current standards and guidance have already addressed the financial reporting for different types of trusts.

UPCOMING EVENTS

PSAB staff is scheduled to make presentations in the following conferences and events:

Organization	Date	Location
<u>Institute of Chartered Accountants of Alberta</u>	November 16, 2011 November 17, 2011	Edmonton Calgary
<u>Financial Management Institute of Canada</u>	November 22, 2011	Ottawa
<u>Institute of Chartered Accountants of Nova Scotia</u>	November 28, 2011	Halifax
<u>Ordre des comptables agréés du Québec</u>	January 19, 2012	Gatineau
<u>Certified General Accountants of Ontario</u>	February 10, 2012	Toronto
<u>Ordre des comptables agréés du Québec</u>	April 18, 2012 April 19, 2012	Montreal Quebec City

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WHAT'S NEW

Website Resources Update

Three Basis for Conclusions documents, which provide the rationale for the new [Financial Instruments](#) standard and revised [Foreign Currency Translation](#) and [Financial Statement Presentation](#) standards, are posted on PSAB's website. The documents discuss the major issues, alternatives considered, stakeholders' views on these issues and how PSAB resolved them.

The Concepts Underlying Financial Performance Task Force has issued its first Consultation Paper, "[Characteristics of Public Sector Entities](#)." The paper and a [webcast](#) that explains the content of the consultation paper are available on PSAB's website.

Appointment of the Assets Task Force

An 8-member Task force representing the senior government finance, controller and auditor communities, local governments, public accounting firms and academe has been appointed to undertake the Assets project. Click [here](#) for the list of Task Force members.

Annual Report

PSAB's 2010-2011 Annual Report is posted on its website and can be accessed [here](#). It contains reports from the Chair of PSAB and the Director of Public Sector Accounting, and provides highlights of PSAB's performance in meeting the objectives established in its 2010-2011 Work Plan.