



Public Sector Accounting Standards (PSAS) update Bringing clarity

January 14, 2015



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Agenda

- What's **new and upcoming** within Public Sector Accounting Standards
- Understanding the implications of the **Related party transactions project**
- Reporting on **PS 3260 *Liability for contaminated sites***
- Statement of Principles – **Asset retirement obligations**
- Reminders on **Financial instruments and foreign currency translation**
- Other **PSAB** projects
- Public Sector Accounting Discussion Group
- **Questions and answers**

Important caveats

This webcast does not provide official Deloitte interpretive accounting guidance.

Check with your advisor before taking any action.



What's new and upcoming within Public Sector Accounting Standards?

What's new and upcoming within public sector accounting standards?

CP: Task Force Consultation Paper

ED: Exposure Draft

HB: Handbook Release

RI: Request for Information

Standards for public sector entities	2014	2015		
	Q4	Q1	Q2	H2
Asset Retirement Obligations				ED
Assets			HB	
Concepts Underlying Financial Performance			CP	
Financial Instruments – Subsequent Issues	ED		HB	
Impairment of Non-Financial Assets				SOP
Not-for-Profit Organizations (see Joint Not-for-Profit Review)				

Source: <http://www.frascanada.ca/standards-for-public-sector-entities/projects/active/item56215.aspx>

As at January 6, 2015

What's new and upcoming within public sector accounting standards? (cont'd)

CP: Task Force Consultation Paper

ED: Exposure Draft

HB: Handbook Release

RI: Request for Information

Standards for public sector entities	2014	2015	
	Q4	Q1	Q2
Post-Implementation Review			
Section PS 3410, Government Transfers	RI		
PSA Handbook Terminology	HB		
Related Party Transactions		HB	
Restructurings			HB
Revenue			ED

Source: <http://www.frascanada.ca/standards-for-public-sector-entities/projects/active/item56215.aspx>

As at January 6, 2015

What's new and upcoming within public sector accounting standards? (cont'd)

PSAB Completed projects as of January 6, 2015

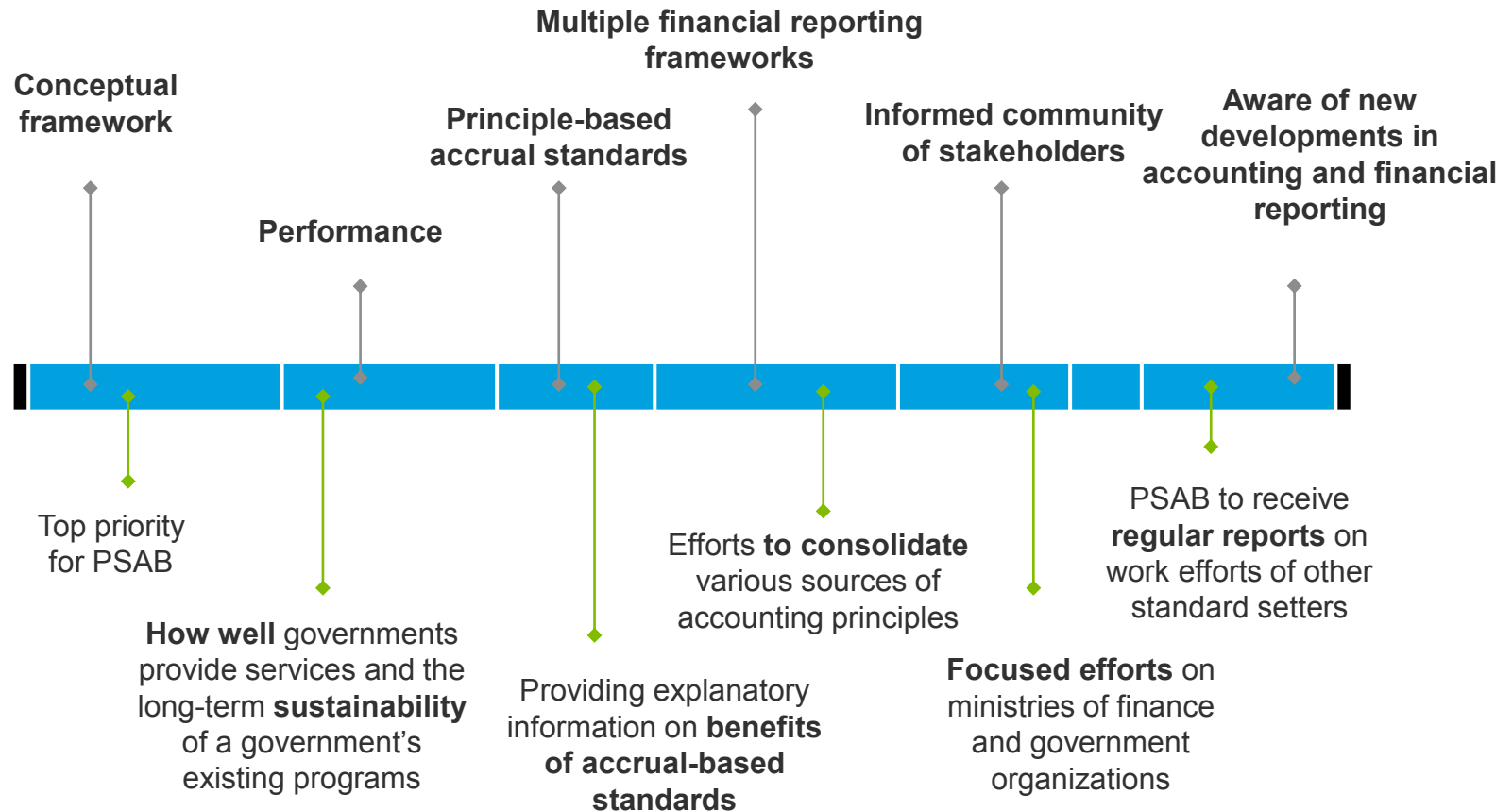
Project	Purpose	Update/ Issue date	Effective date
Liability for Contaminated Sites	Address the need to have a standard that deals with the application of Sections PS 2130, PS 3200 and PS 3300 related specifically to environmental liabilities.	March 2010	April 1, 2014
Financial Instruments, Section PS 3450	Address transition and other issues that have been brought to the PSAB's attention	October 2014	April 1, 2016
Foreign Currency Translation, Section PS 2601	Address the issue of accounting for foreign exchange gains and losses	March 2014	April 1, 2016 *

- Except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting PSAS. Earlier adoption is permitted when adopting Sections PS 1201 and PS 3450
- Except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting PSAS. Earlier adoption is permitted when adopting Sections PS 1201 and PS 2601.

Source: <http://www.frascanada.ca/standards-for-public-sector-entities/effective-dates-for-new-standards/public-sector-accounting/index.aspx>

What's new and upcoming within public sector accounting standards? (cont'd)

PSAB 2013-2016 Strategic plan highlights



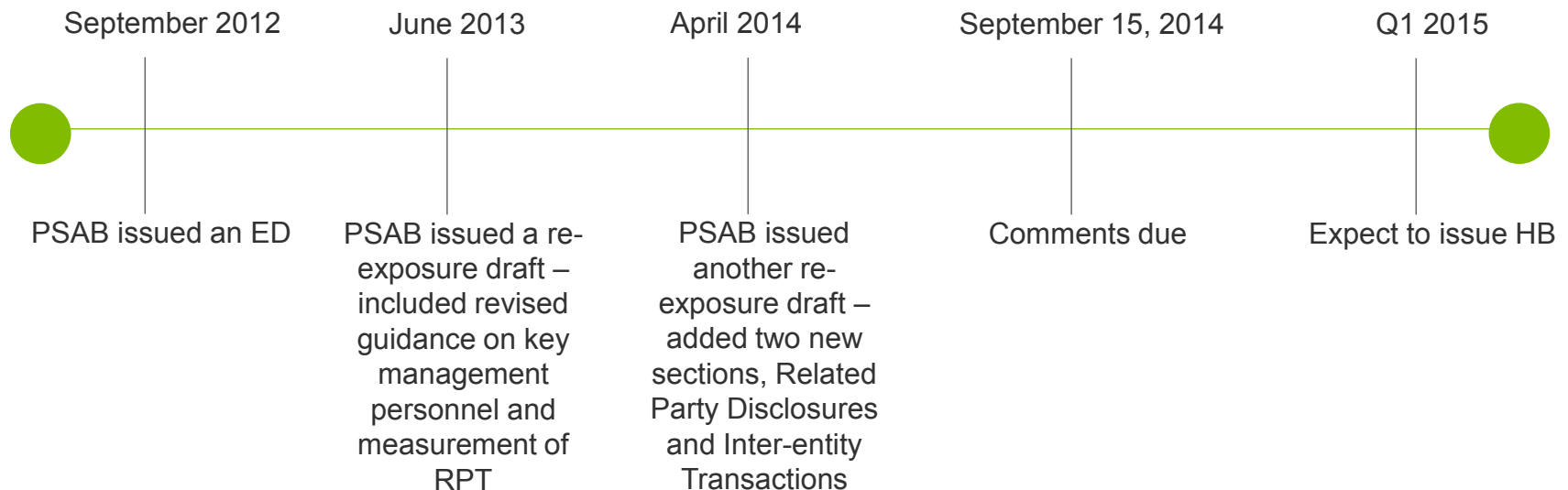
Understanding the implications of the related party transactions project

Related Party Transactions (RPT)

ED

Purpose of the project

- To address the recognition, measurement and disclosure of RPT
- Currently the PSA handbook only has guidance for not-for-profit government entities



Understanding the implications of the related party transactions project

A re-exposure draft was issued in April 2014 in response to three major issues arising from comments on the June 2013 re-exposure draft:

- a) Whether a related party of an entity that is reporting includes an entity when a member of key management personnel or a close family member of that individual is also a member of the management or governing body of that other entity
- b) The need for clarification of the guidance on measurement of a related party transaction when, as a result of the transaction, there is a significant change in a recipient's future economic benefits or service potential, and
- c) The need for clarification of whether the proposed standard provides an option to recognize contributed assets

Related party transactions can occur with entities outside of the government's reporting entity. However, the guidance on recognition and measurement can only be applied to those entities within a government's reporting entity that follow the PSA Handbook.

Understanding the implications of the related party transactions project (cont'd)

Related party disclosures

Main features of re-exposure draft

- Clarifies when a related party exists:
 - One party has the ability to exercise control or shared control
 - Subject to common control or shared control
 - May include individuals that are members of key management personnel and close family members
- Disclosure of key management personnel compensation arrangements
- Two entities that have a member of key management personnel in common may be related
- Disclosure of material financial effects on the financial statements
- Determining which related party transactions to disclose is a matter of judgment

Understanding the implications of the related party transactions project (cont'd)

Inter-entity transactions

Main features of re-exposure draft (continued...)

- Inter-entity transactions –
 - Recognize at carrying amount, exchange amount or fair value depending on the particular circumstances of each case
 - In the normal course of operations or under a policy of cost allocation and recovery should be recognized on a gross basis at the exchange amount
 - Recipients may recognize unallocated costs as a revenue and expense at carrying amount, fair value or another amount based on existing policy, depending on the particular circumstances of each case
 - Disclose in accordance with the proposed new Section on related party disclosures

Reporting on PS 3260 *Liability for contaminated sites*

Reporting on PS 3260 *Liability for contaminated sites*

How does **Liability for a contaminated site** arise?

A liability for remediation of a contaminated site normally results from items such as:

- a) All or part of an operation that is no longer in productive use
- b) All or part of an operation of entities outside the reporting entity that is no longer in productive use for which the reporting entity accepts responsibility
- c) Changes to environmental standards relating to all or part of an operation that is no longer in productive use, and
- d) An unexpected event resulting in contamination.

Reporting on PS 3260 *Liability for contaminated sites* (cont'd)

Practical implementation of PS 3260

PS 3260 applies to fiscal years beginning on or after April 1, 2014.

Intention of the standard is to result in faithful representation of an entity's liabilities consistent across the Public Sector.

Expectations of management on adoption of PS 3260

- Perform a review of the entity's contracts and agreements, including legislation or other documents that may indicate that a liability exists.
 - Based on review of available documentation, determine whether there are unrecorded liabilities.
 - Determine the inputs and assumptions to calculate an estimate of the future cash flows to measure the liability.
-

Reporting on PS 3260 *Liability for contaminated sites* (cont'd)

Definitions

What is contamination?

- PS 3260 defines contamination as:

*'...contamination is the **introduction into air, soil, water or sediment of a chemical, organic or radioactive material** or live organism that **exceeds an environmental standard**. A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard...'*

Reporting on PS 3260 *Liability for contaminated sites* (cont'd)

Definitions

What is productive use?

- PS 3260 does not clearly define “productive use” but only provides examples of assets or operations not in productive use (e.g., abandoned military installations, an abandoned gas station).
- Public Sector Accounting Discussion Group has advised PSAB of potential boundary issues with ARO accounting due to defining what is productive use and determining the scope of PS 3260 in relation in sites currently in productive use.

Extract, PSA Discussion Group Report on Meeting – January 7, 2014

<http://www.frascanada.ca/standards-for-public-sector-entities/public-sector-accounting-discussion-group/search-past-meeting-topics/item79465.pdf>

Reporting on PS 3260 *Liability for contaminated sites* (cont'd)

Retirement obligations vs. liability for contaminated sites

Retirement obligations

- No formal definition or guidelines in PSAS
- However, based on guidance in Section PS 3260, this is a liability that arises from having to retire a long-lived tangible capital asset that is currently in productive use. The liability arises from acquisition, construction or development and ongoing use.

Liability for contaminated sites

- Liabilities for remediation generally arise from:
 - An operation (Or part thereof) being no longer in productive use (Either under entity's responsibility or entity accepts responsibility for), or
 - Changes to environmental standards relating to all or part of an operation that is no longer in productive use, or
 - An unexpected event resulting in contamination

Example

An entity constructs and operates a nuclear power plant. The entity is legally required to dismantle and remove the power plant at the end of its useful life.

Example

A coolant from the power plant has sprung a leak resulting in the coolant leaking into a nearby park. Assuming all Section PS 3260 requirements are met (discussed further), an environmental liability exists.

Reporting on PS 3260 *Liability for contaminated sites* (cont'd)

Section does not apply to

- Airborne contamination or contaminants in earth's atmosphere (unless introduced to soil, water bodies or sediment)
 - Costs for acquisition or betterment of tangible capital assets
 - Liabilities associated with retirement of a long-lived tangible asset in productive use
 - Liabilities associated with disposal or sale of long-lived tangible capital assets, and
 - Liabilities for closure and post-closure care of a solid waste landfill when the site stops accepting waste
-

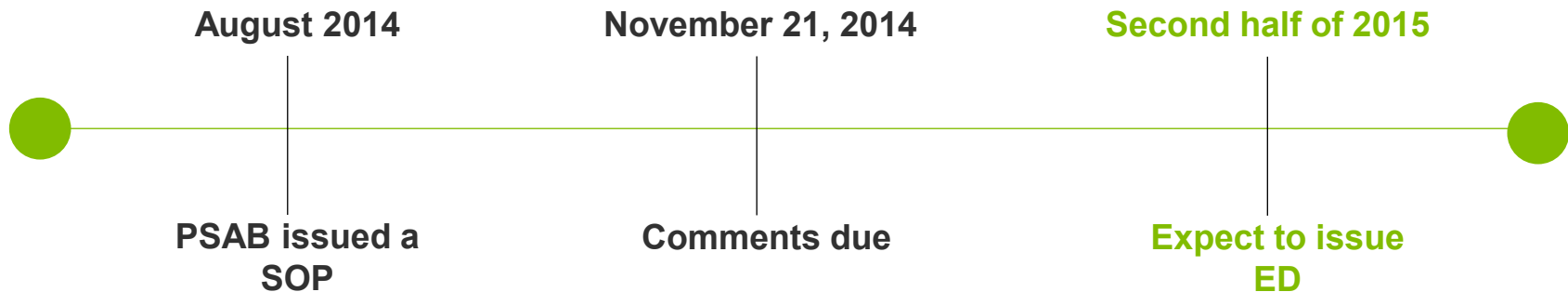
Statement of principles – Asset Retirement Obligations

Asset Retirement Obligations (ARO)

SOP

Purpose of the project

- To add guidance on accounting for AROs since the PSA Handbook currently does not have guidance in this area resulting in other sources of GAAP being the only alternative



Asset Retirement Obligations (ARO) (cont'd)

Definitions

What is an asset retirement obligation?

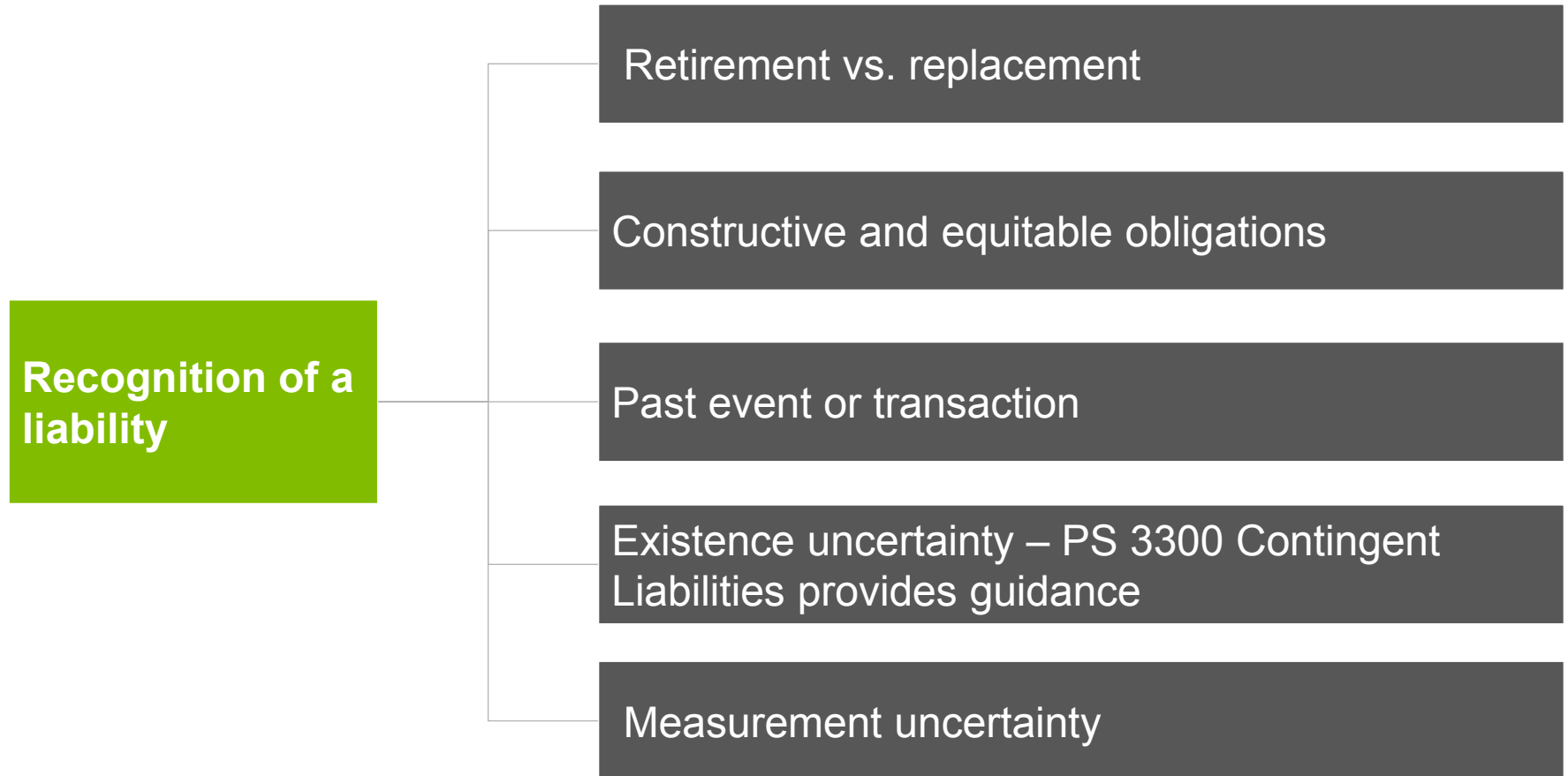
- SOP: “A **retirement obligation** is an obligation (legal, constructive or equitable) associated with the retirement of a tangible capital asset controlled by a public sector entity”.
-

Asset Retirement Obligations (ARO) (cont'd)

Proposals

- AROs result from legal, constructive and equitable obligations
- Retirement costs increase the carrying amount of the related asset
- Subsequent remeasurement of the liability can result in a change in the carrying amount of the asset or an expense
- Clarification of the term “productive use” (not directly addressed in PS 3260)
- AROs include post-retirement operation, maintenance and monitoring

Asset Retirement Obligations (ARO) (cont'd)



Asset Retirement Obligations (ARO) (cont'd)

Recognition and allocation of retirement costs	Measurement	Changes in estimates
<ul style="list-style-type: none">• Capitalization• Components• Cost allocation	<ul style="list-style-type: none">• Nature of costs to be incurred (post-retirement operations, maintenance and monitoring, cost of assets related to retirement activities with no alternative use)• Measurement techniques	<ul style="list-style-type: none">• When to remeasure the estimates• How to account for the change in estimates

Asset Retirement Obligations (ARO) (cont'd)

Nature of costs to be incurred

- Costs directly attributable to the retirement of the tangible capital asset include, but are not limited to:
 - Payroll and benefits
 - Equipment and facilities
 - Materials
 - Legal and other professional fees
 - Overhead costs directly attributable to the retirement activity, and
 - Qualifying post-retirement costs (integral and directly attributable to the retirement activity)

Asset Retirement Obligations (ARO) (cont'd)

Recoveries

A recovery of a retirement obligation is to be presented as a separate asset and not netted against the liability when:

- | | | |
|--|---|---|
| <ul style="list-style-type: none">• The recovery can be appropriately measured | <ul style="list-style-type: none">• A reasonable estimate of the amount can be made | <ul style="list-style-type: none">• It is expected that future economic benefits will be obtained |
|--|---|---|

A recovery should be recognized in the period in which the transactions or events occurred that gave rise to the revenue.

Asset Retirement Obligations (ARO) (cont'd)



Presentation and disclosure

- General description of liability and the associated asset or component thereof;
- Amortization method
- Basis for the estimate
- Reconciliation from opening to ending balance
- When a NPV technique is used:
 - The estimated total undiscounted expenditures
 - The estimated timing of settlement of these expenditures
 - The discount rate used, and
- The reasons for not recognizing a liability

Asset Retirement Obligations (ARO) (cont'd)

Comparison to Part II/Part V

	Retirement obligations under PSAS	Asset retirement obligations (Part II/Part V)
Types of obligations	Legal, constructive and equitable	Legal obligation
Scope	Excludes assets held under operating lease	Does not preclude operating leases
Measurement	Broad description	PSAS and Part II are similar. Part V is more prescriptive.

Reminders on financial instruments and foreign currency translation

Reminders on financial instruments and foreign currency translation

Transition

- Transition to Section PS 3450 and PS 2601 will be a **prospective transition**.

	Government organizations*	Governments
Adoption date	Years beginning on or after April 1, 2012	Years beginning on or after April 1, 2016
Application	Prospective	Prospective
Earlier application**	Permitted	Permitted

* Assuming organization applied CPA Canada Handbook previously

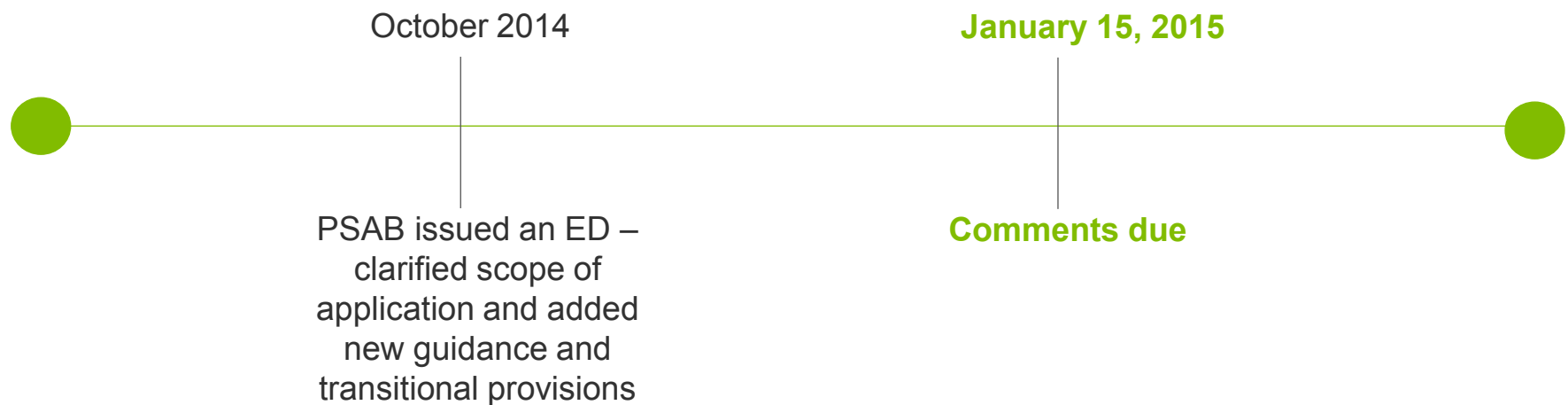
** Both standards must be adopted in the same year

Financial Instruments – Subsequent issues

ED

Purpose of the project

- To consider issues on PS 3450 Financial Instruments



Financial Instruments – Subsequent issues (cont'd)

ED

Proposals to clarify (not alter) existing requirements

- Scope amendment
 - Unless a contractual right or a contractual obligation underlies a receivable or payable, the Section does not apply.
 - Redundant paragraph removed re: leases
- Presentation – Clarification on how a transfer of collateral pursuant to a credit risk management mechanism in a derivative contract is accounted for
- Transitional provisions – Clarification on:
 - Unamortized discount or premium associated with debt buy-backs
 - Financial assets or liabilities in – The cost or amortized cost category with an associated unamortized discount or premium
 - Unrecognized derivatives or derivatives not measured at fair value

Other PSAB projects

Developing a standard on revenue

Developing a standard on revenue

- Statement of principles (“SOP”) issued on August 29, 2013
- Exposure draft expected in Q2 2015

PSAS has two Sections that address two major sources of government revenues:

- Government transfers
- Tax revenue
 - Revenues are defined in Section PS 1000, *Financial Statement Concepts*.
 - Recognition and disclosure of revenues are described in general terms in Section PS 1201, *Financial Statement Presentation*.

This project will address recognition, measurement and presentation of revenues that are common in the public sector.

Developing a standard on revenue (cont'd)

Main features of SOP

- Focus on:
 - Exchange transactions (e.g., sale of services, fees and user charges related to performance obligations, licenses, sale of goods or property)
 - Performance obligation is the distinguishing factor of an exchange transaction
 - Unilateral (non-exchange) transactions (taxes, fines, penalties, fees not giving rise to performance obligations)
 - Authority and a past event giving rise to a claim of economic resources is the key to unilateral transactions
- Comments received on SOP
 - Collectability
 - Determining whether a transaction has a performance obligation – e.g., royalties
 - Accounting for license revenue – At a point in time or over time

Assets, contingent assets and contractual rights

Assets, contingent assets and contractual rights

- Exposure draft (“ED”) issued on August 1, 2014.
- Standard is intended to provide guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establish general disclosure standards for assets
- Further clarifies the characteristics of an asset
- Lays out the disclosure requirements for assets not capable of being recognized, contingent assets and contractual assets
- The comment period closed on November 3, 2014.
- Final standards are expected in Q2 2015

Based on the August 1, 2014 ED, this Section is expected to apply to fiscal years beginning on or after April 1, 2017. Earlier adoption is encouraged.

Restructuring transactions

Restructuring transactions

An exposure draft (“ED”) was issued on August 6, 2014. The comment period closed on November 28, 2014.

Comments are being considered and a final standard is expected in Q2 2015

This project will address the initial recognition and measurement of assets and liabilities transferred in restructuring transactions, as well as related presentation and disclosure issues.

Main features include:

- Clarifying what is meant by “restructuring”
- Understanding the characteristics of a restructuring
- Recognition and measurement of assets and liabilities transferred, compensation (if any) and related costs and events

Based on the August 6, 2014 ED, this Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. Earlier adoption is encouraged.

Restructuring transactions (cont'd)

Definition

“A **restructuring transaction** is a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities, that does not involve an exchange of consideration.”

Characteristics of restructuring transactions

- Non-purchase nature
- Transfers of an integrated set of assets and/or liabilities that are not random or unrelated, and
- Transfers of program or operating responsibilities related to the assets and liabilities transferred

Accounting implications

- Transfer recorded by transferor and transferee at carrying value
- Net effect of transfer and any compensation involved recognized as revenue or expense

Joint not-for-profit review

Joint not-for-profit review

- The Accounting Standards Board (AcSB) and Public Sector Accounting Board (PSAB) are working together to improve not-for-profit (“NPO”) standards to better meet users’ needs.
- The joint review will result in recommended improvements to those accounting standards, which are used by not-for-profit organizations in both the private and public sectors.
- The AcSB and PSAB are deliberating the significant level of responses to the Statement of Principles issued in April 2013.
- Common concerns have been summarized in the following publication

http://www.corpgov.deloitte.com/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/CanEng/Documents/Not-for-profit%20Organizations/Corporate%20Governance/DeliberationTime_Improvements_NPO_Standards.pdf

- AcSB and PSAB meet in March 2015. Discussion topics include:
 - Understanding user needs
 - Need for symmetry between both sectors
 - Timeline of the project

Post-implementation review: Section PS 3410, Government transfers

Post-implementation review: Section PS 3410, Government transfers

- The purpose of the post-implementation review is to gather evidence to inform PSAB how Section 3410, Government Transfers, is being implemented, due to indications of different interpretations and applications of the standard.
- Significant focus on recipient revenue recognition of capital transfers. PSAB is interested in understanding how public sector entities and their auditors have applied the liability definition and characteristics in making the revenue recognition assessment of capital transfers.
- How has the authorization for transfer recognition from transferring governments and recipients guidance been applied to:
 - Multi-year transfers
 - Transfers subject to “authority to pay” or “approval of appropriation” provision, and
 - Situations in which the same transfer has been provided to the same recipient for a number of consecutive years
- Is the distinction between “stipulations” and “eligibility criteria” understood

Post-implementation review: Section PS 3410, Government transfers (cont'd)

- Responses to the request for information are due May 15, 2015
- Link to request for information:
<http://www.frascanada.ca/standards-for-public-sector-entities/documents-for-comment/item80533.pdf>

Section PS 3250: “Shared-risk” Retirement benefit arrangements

Section PS 3250: “Shared-risk” Retirement benefit arrangements

PSDG have noted that some jurisdictions have amended, or are planning to amend, legislation allowing retirement benefit arrangements described as “shared-risk” plans.

Typical Characteristics of a Shared-Risk Retirement Benefit Arrangement/Plan (“SRP”)

- Funding is shared between the employees and the employer
- Funding is set to meet certain risk management goals
- If funding levels are not sufficient to meet the goals, a funding deficit recovery plan is mandated, which could result in increased contributions (to a pre-determined cap) or decreased benefits.
- Actual benefits paid or payable to a retired or terminated member are based on a targeted formula
- Governance is provided by an independent board of trustees with representatives from the employees and the employer.

Section PS 3250: “Shared-risk” Retirement benefit arrangements (cont’d)

Opposing views are emerging on the classification of retirement benefit arrangements with “shared-risk” characteristics.

View A

The plan is not a defined contribution plan because the employer is exposed to potential variability in contributions. When the employer has residual risk, the plan is, by definition, a defined benefit plan.

View B

The plan is a defined contribution plan. While contributions may vary in the future, the potential that employer contributions can increase is predetermined and capped. A defined benefit liability does not exist as the employer’s sole obligation is to make the specified contributions.

At its December 2014 meeting, PSAB approved a project on Employment Benefits to address this type of plan.

Public sector accounting discussion group

Public sector accounting discussion group

What is the group?

- Established by PSAB in 2013
- Discussion forum only
- Addresses issues arising on application of the PSA Handbook
- Similar to the Private Enterprise Advisory Committee (“PEAC”) which maintains and improves accounting standards for private enterprises

Public sector accounting discussion group (cont'd)

PSA discussion group 2014 Meeting topics

- **PS 1201 Presentation of Budget Information** – Consider different views on basing the budget figures presented by a governmental unit on those originally planned.
- **PS 1201 Reporting on Financial Position by a Governmental Unit** – Consider different views on presenting net debt and a statement of changes in net debt by a governmental unit.
- **PS 2120 Adjustments Made in a Period Subsequent to Identification of an Accounting Error** – Consider the reporting implications when an adjustment is recorded in a period subsequent to identification of an accounting error.
- **PS 2510/PS 3230 Presenting Debt Obligations of a Government Business Enterprise** – Consider different views on presenting debt obligations issued by a government on behalf of a governmental unit that subsequently becomes a government business enterprise.
- **PS 3260 Determining When Assets Are “No Longer in Productive Use”** – Consider whether sites currently in productive use are accounted for in accordance with Section PS 3260 and different views on “productive use”.

Public sector accounting discussion group (cont'd)

PSA discussion group 2014 meeting topics

- **PS 1201/1300/2601/3450 Presentation of Remeasurement Gains and Losses** – Consider the circumstances of an organization that controls an investment corporation and has adopted IFRS.
- **PS 3070 Modified Equity Method – Implementing New Accounting Standards** - Consider different views on accounting changes arising from the implementation of new accounting standards by a government business enterprise.
- **PS 3250 “Shared-Risk” Retirement Benefit Arrangements** – Consider different views on the classification of retirement benefit arrangements with “shared risk” characteristics.
- **PS 3410 Constructive Obligations and Transfers Expense** – Consider different views on the recognition of an expense by a transferring government.

Public sector accounting discussion group (cont'd)

Agenda – January 15, 2015

Agenda

Sections PS 1201: Presentation of Budget Information

- Consider issues that may arise when presenting a comparison of the results for the accounting period with those originally planned.

Section PS 3250: “Shared Risk” Retirement Benefit Arrangements

- Consider different views on the measurement of the accrued benefit obligation when retirement benefit arrangements have “shared-risk” characteristics.

The Value of Statements of Recommended Practice (SORPs)

- Consider how SORPs support reporting on the performance of public sector entities.

Standard Setting and the Public Interest

- Consider what constitutes the scope and characteristics of the public interest.
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Questions and answers



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