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by email: ed.psector@cpacanada.ca

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

Dear Mr. Beauchamp:

Re: Invitation to Comment on Exposure Draft – Financial Instruments: Transition

We appreciate the opportunity to respond to the Public Sector Accounting Board Exposure Draft (ED) on Financial Instruments: Transition issued in October, 2014.

1. Do you agree with amending Section PS 3450 in the manner outlined in this Exposure Draft?

Purpose and Scope

We generally agree with the amendments being proposed that affect the 'purpose and scope' sections of the Standard.

We are in agreement that this amendment should be made to clarify that receivables and payables that are compulsorily paid or payable (to governments) but are not contractual in their origin are outside of the scope of PS 3450, *Financial Instruments* (PS 3450). However we highlight that there is a lack of clarity as to which such Standard such receivables and payables would currently be scoped into under Public Sector Accounting Standards.

We also agree that the PS 3450.003 (e) (i) should be removed as PSG-2 is written from the perspective of the lessee and as mentioned, there would be no receivable associated with such transactions, making the guidance in 3450.003 (e) (i) irrelevant. However, we note that given there is no Standard within PSAS on accounting for leases from the perspective of the lessor, which could result in a receivable, it would be helpful to clarify that the amendment is not eliminating lease receivables from the scope of PS 3450 regarding assessing such receivable for impairment.

Presentation

We agree with the proposed amendment regarding consideration transferred pursuant to a credit risk management mechanism in a derivative contract.

Transitional Provisions

Although we generally agree with the proposed amendments, there are some areas we believe still require clarification.

- It is clear in PS 3450, that the Standard is not applied retroactively for government organizations (PS 3450.100). However, there is no specific guidance on transition for governments re: prospective vs. retroactive application, except that the transition guidance in PS 3450.99(a) and .99(b) imply that the Standard should be applied prospectively.
- Proposed paragraph PS 3450.101(a) requires an adjustment to opening accumulated surplus/deficit for unamortized discounts or premiums attributable to derecognized debt instruments. Based on our review of the balance of the Standard, and its transition guidance, we understand that none of the other transition provisions allow for an adjustment to opening accumulated surplus/deficit and therefore, believe that this guidance is conflicting.
- In regards to proposed paragraph PS 3450.101(b), it is not clear regarding whether the requirement to include the unamortized discount or premium associated with a financial asset or financial liability measured at amortized cost (in the item's carrying value), is a requirement to re-measure the amounts (i.e. the premium or discount), or simply a change in presentation upon transition.
- Although the proposed addition of PS 3450.101 (c), aims to provide some guidance on the treatment of derivatives upon transition to PS 3450, we believe there is a general lack of guidance on how derivatives should be addressed upon transition to PS 3450. The addition of this specific paragraph does not provide the required clarity on this issue. For example, existing guidance in paragraph PS 3450.99(e) speaks to embedded derivatives and notes that the accounting policy for the identification and treatment of embedded derivatives can be done retroactively or prospectively depending on the policy choice. However, no similar guidance is provided for derivatives upon transition.

Applying the Requirements

We are in agreement with the proposed amendment to Appendix A, to include guidance explaining that derecognition of a financial asset does not occur if the transferor of a financial asset retains substantially all of the risks and benefits of ownership.

2. Do you have any other comments on the proposals?

No.

We would be pleased to discuss any questions or comments you many have with respect to this letter. To do so, please contact Lynn Pratt (613-751-5344), Cindy Veinot (416-643-8752) or the undersigned.

Yours truly,

Julie Corden

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