



Treasury Board of Canada
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Canada

Public Sector Accounting Standards Implementation

***Diane Peressini
Executive Director
Office of the Comptroller General***

Agenda

1 Directive on Accounting Standards – Updates 2019-2020

2 Upcoming accounting standards changes

- PS 3400 Revenues - Recognition and Measurement and other revenue considerations
- Asset Retirement Obligations – Accounting overview and high level plan
- Financial Instruments – Major impacts of standard for government departments

Directive on Accounting Standards – Updates 2019-2020

Background – Directive on Accounting Standards

Outlines the accounting, reporting and recording framework for the Government’s consolidated financial statements, departmental financial statements, and departmental quarterly financial reports. Effective April 1, 2017

Government of Canada Accounting Handbook

Finalize

GC 2200 Related party disclosure
GC 3420 Inter-entity transactions

New

GC 3260 Liability for contaminated sites
GC 3430 Restructuring transactions

No change in current practices

Upcoming

PS 3400 Revenue
PS 3280 Asset Retirement Obligations
PS 3450 Financial Instruments

Plus updates to existing handbook sections

Guidance Documents

Government of Canada Coding Manual

✓ Available for review by financial community (December 2019 and March 2020)

Illustrative Departmental Financial Statements

✓ Draft finalized by December 2019

Upcoming Standards changes: PS 3400 Revenues

Effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted. May be applied retroactively or prospectively.

Scope

PS 3400 does not apply to:

- Donations
- Government transfers
- Tax revenues
- Restricted income
- Returns on investments
- Restructuring gains
- Revenues from investments (partnerships and GBEs)

Next steps

Departments to assess the impact on current accounting policies:

- Does a performance obligation exist?
- When is it satisfied?

Deadline:

Communicate impacts to OCG by April 1, 2021.

PS 3400 Revenue: Recognition & Measurement

Performance Obligations

- Performance obligations are enforceable promises to provide specific goods and services to a specific payer.
- Distinct goods or services should be accounted for separately.

Transactions with performance obligations

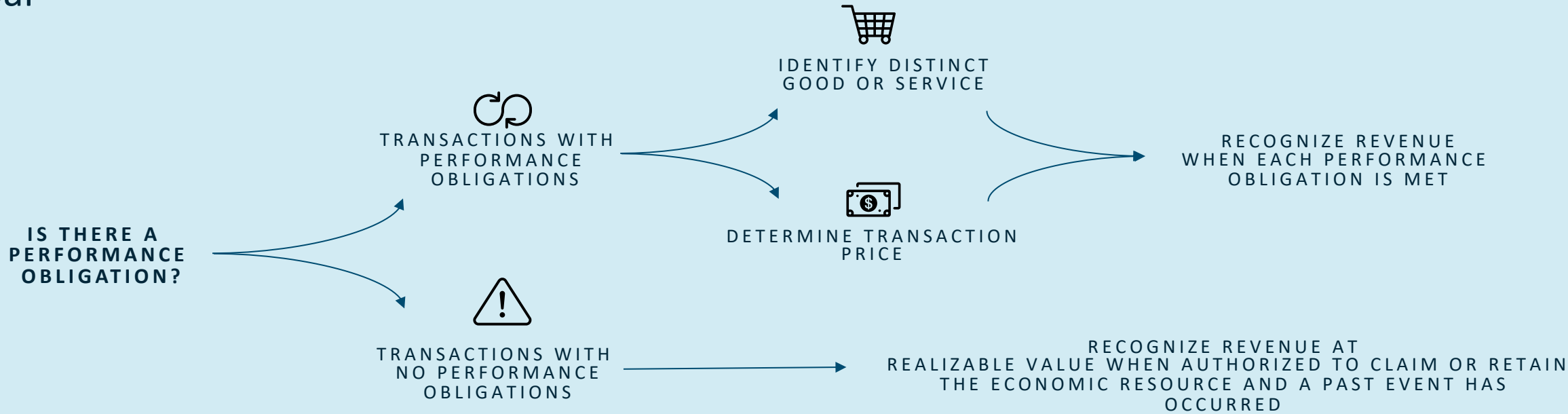
- Recognized when the public sector entity satisfies a performance obligation by providing the promised goods or services.
- Recognize only portion of the transaction price allocated to the performance obligation that has been satisfied.
- Concessional terms impacts transactional price.

Transactions without performance obligations

- Recognized at realizable value when a public sector entity:
 - (a) has the authority to claim or retain an inflow of economic resources; and
 - (b) identifies a past transaction or event that gives rise to an asset.

PS 3400 Revenue: Recognition & Measurement

Principal



Agent


NET PRESENTATION

ONLY THE FEE OR COMMISSION
IS RECOGNIZED

Table 3.4 Other revenues

The new PS 3400 would be applicable to the following streams of revenues: **Sales of Goods and Services** and **Miscellaneous revenues** such as interest and penalties.

Sales of goods and services	2018	2017
Rights and privileges	\$2,824	\$2,748
Lease and use of public property	746	725
Services of a regulatory nature	1,622	1,221
Services of a non-regulatory nature	4,515	4,179
Sales of goods and information products	3,697	3,874
Other fees and charges	847	449
Total sales of goods and services	14,251	13,196
Miscellaneous		
Interest and other penalties	4,352	4,116
Other	255	792

FOR DEPARTMENTS

What are the expected impacts?



ACCOUNTING

Not expected to have a significant impact upon transition but departments are asked to provide further details of their key revenue policies and impacts of the new standards.



DISCLOSURES

The standard's requirements may necessitate additional disclosure. Departments should examine if their records will allow them to meet the reporting requirements or if changes will be necessary.

Other upcoming revenue considerations



The **Directive on Charging and Special Financial Authorities**, Section 4.2.4, will make Section 7 on Remissions of the Service Fee Act operable as of April 1, 2020.



Consider implications on revenue policies
Any new policies to be implemented for April 1, 2020

Asset Retirement Obligations – What, How, Next Steps

What?

- PS 3280, which is **effective April 1, 2021**, addresses the reporting of **legal obligations** associated with **Asset Retirement Obligations (ARO)**.

How?

- Legally obligated costs associated with the retirement of capital assets need to be accounted for **over the life of the asset**, as opposed to at time the retirement occurs.

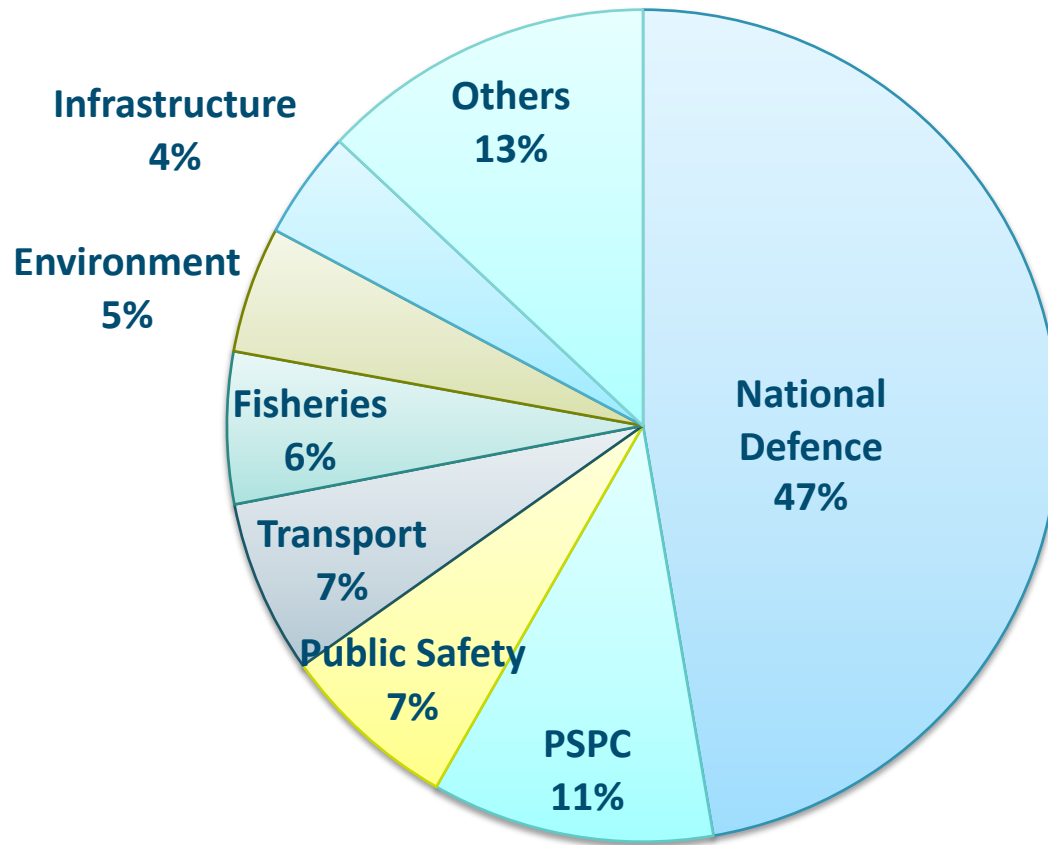
Next Steps?

- Public Sector Entities will need to have **complete inventory** of capital assets with a potential ARO.
- Compliance with this new standard is critical to ensuring that your financial statements continue to have an **unqualified audit opinion**.

Impact of New ARO Standard

Tangible Capital Assets

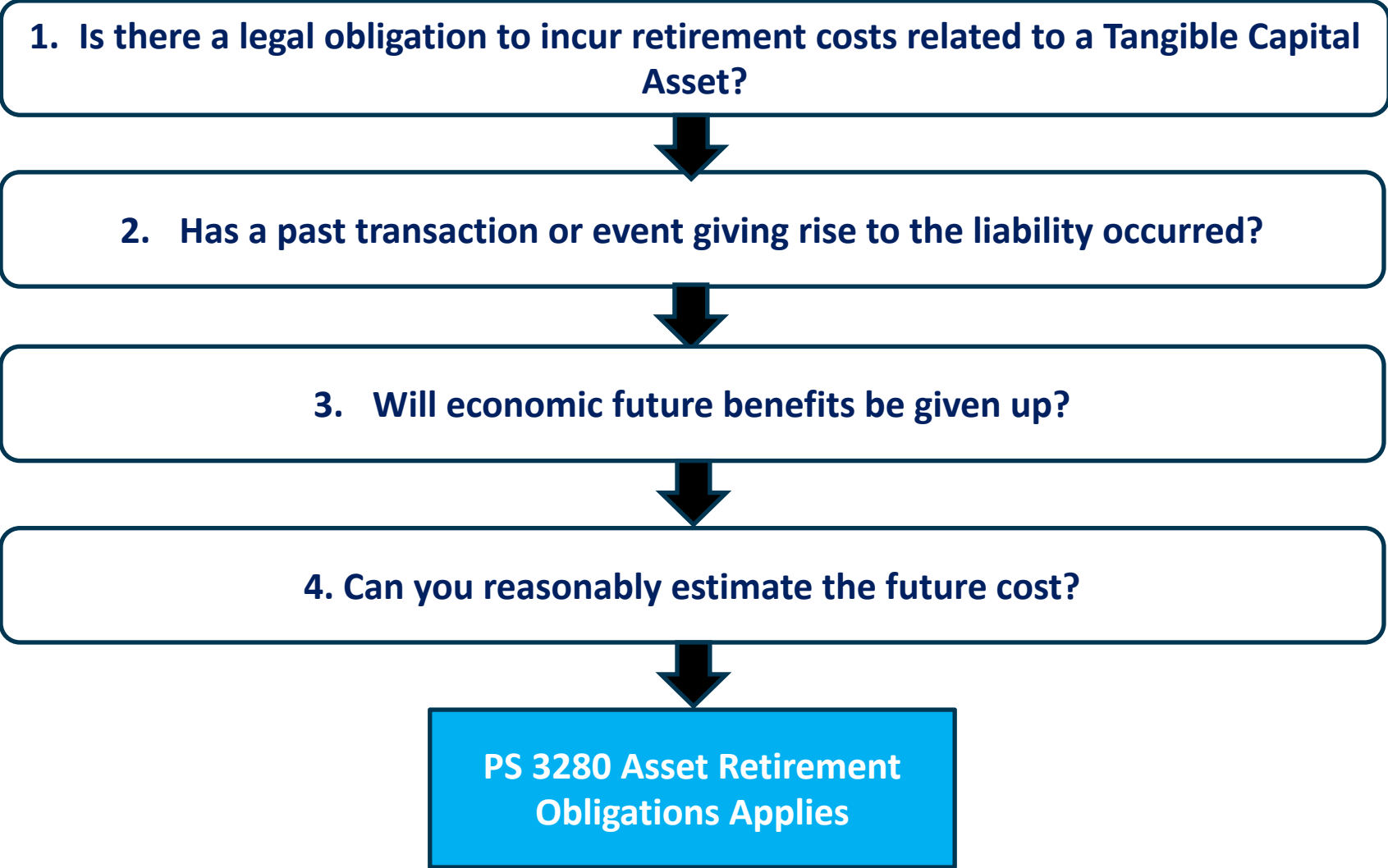
Public Accounts 2018



- Impact of this standard at this point is being assessed.
- As at March 2018, the Government had ~\$74 Billion in capital assets.
- Examples of potential AROS:
 - Removal of Asbestos
 - Decommission of nuclear components
 - Retirement of special equipment (e.g. X-rays)
 - Return of leased assets to “like new” status, etc.

It is critical each department have a **complete listing** of all assets that may potentially have Asset Retirement Obligations **by March 31, 2020.**

Asset Retirement Obligations – Recognition



Recognition – Where can Legal Obligations arise from?

AROs Legal Obligations can arise from:

- **Legally binding agreements between the Government and third parties.**

Contracts or Agreements

Federal Legislation

- **Canada Labour Code**
- **Canadian Environmental Protection Act**

- **A promise that may be enforceable by law, when there is a reasonable expectation to carry out that promise.**

Promissory Estoppel

Other Legislation (e.g. Provincial)

- **Lakes and Rivers Improvement Act (Ontario)**
- **The Dangerous Goods Handling and Transportation Act (Manitoba)**

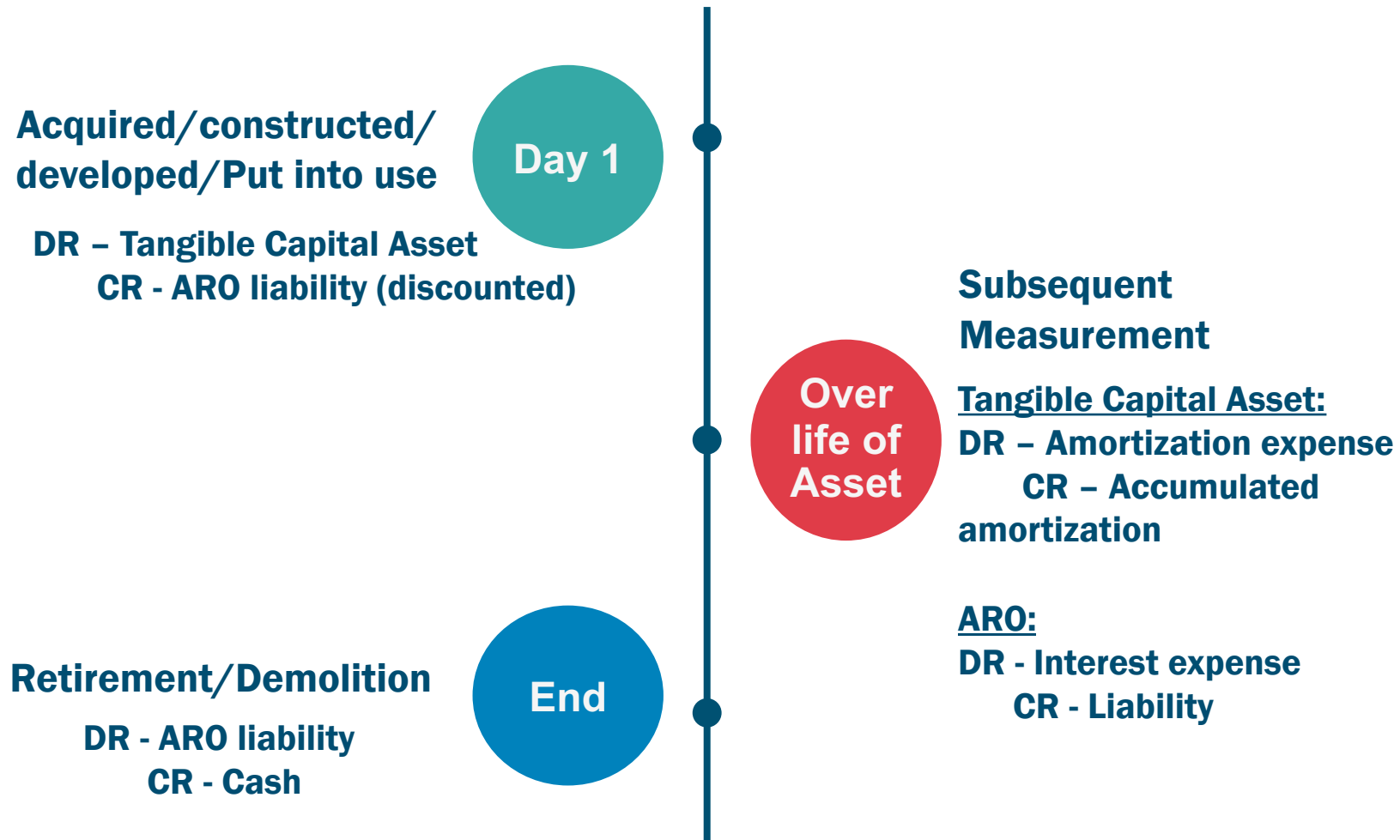
Asset Retirement Obligations – ARO vs Environment Liabilities

	Asset Retirement Obligations (PS 3280)	Contaminated Sites (PS 3260)
Cause	Normal use of asset where there will be costs incurred at end of useful life for retirement.	Unexpected event or improper use of asset. Contamination needs to exist.
Nature of obligation	Legal obligations related to the retirement of controlled Capital Asset.	Contamination of the soil, water or sediment exceeding an environmental standard.
Recognition of liability	Recognized for the cost of the ARO when obligation is known.	Recognized when the government is directly responsible or accepts responsibility for remediation.
Measurement of liability	Based on management's best estimate using PV technique.	Based on management's best estimate using PV technique.
Recognition of asset	Asset is recognized for the additional cost of the ARO for Capital Asset.	No asset is recognized.
Recognition of expense	Amortization of ARO on capital asset and unwinding of discount rate on liability.	Recognition of expense concurrently with increases in liability.



Asset Retirement Obligations - Accounting overview

Treatment under new Standard



Financial Instruments

- Three complementary standards, effective April 1, 2021
- Prospective application

PS 1201 – Financial statement presentation

- Introduces a new *Statement of Re-measurement Gains and Losses (SRMGL)*
- Unrealized fair-value (including foreign currency) fluctuations recognized in the SRMGL
- Remeasurement gains/losses are a component of accumulated surplus/(deficit) (equity)
- Accumulated remeasurement gains/losses recycled to Statement of Operations on settlement

PS 2601 – Foreign currency translation

- *Changes to presentation of foreign currency gains/losses:*
- Foreign-denominated monetary items translated at an appropriate exchange rate
- Unrealized foreign currency gains/losses presented in the SRMGL until settlement

PS 3450 – Financial instruments

- *New standard – measurement, presentation and disclosure*
- Derivatives and actively-quoted equity measured at fair-value
- Fair-value option available for assets/liabilities managed on fair value basis
- All other financial instruments continue to be measured at amortized cost
- Effective interest method used to determine amortized cost
- Separation of embedded derivatives if not closely related to host contract

Note: not an exhaustive list of requirements

Major impacts of FI standards for government departments (other than Finance)

Identification of embedded derivatives

- Review contracts that contain clauses which cause the contract cash flows to fluctuate based on an underlying rate or index.
- When the variable is not closely related to the host contract, the embedded derivative is recognized separately, or the entire contract is recognized at fair value.

Application of the effective interest rate method

- Straight line method of amortization of interest on long-term receivables or payables to be replaced by the effective interest rate method.

Major impacts of FI standards for government departments (other than Finance)

Presentation of unrealized foreign currency gains/losses

- Separation of unrealized foreign currency gains/losses in order to present them in the statement of remeasurement gains/losses through new account coding and process to be developed.
- When settled, the foreign currency gain/loss will be transferred to the Statement of Operations.

Enhanced risk disclosures

- Focus on capturing information to support increased disclosures where required.
- E.g. Accounts receivable - credit risk, items past due or impaired, and collateral or other enhancements obtained.

OCG support - financial instruments implementation



Contacts

GAPR Inbox: GAPR-CGPR@tbs-sct.gc.ca

GCPedia:

[https://www.gcpedia.gc.ca/wiki/External financial reporting community](https://www.gcpedia.gc.ca/wiki/External_financial_reporting_community)

DAS:

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