



Public sector accounting update & ESG

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May 28, 2024



Public Sector Accounting Standards Update

Effective dates of new standards

Topic	Effective Date (Years commencing on or after)
Financial instruments (PS 3450)* Foreign Currency Translation (PS 2601)* Financial Statement Presentation (PS 1201)* Portfolio Investments (PS 3041)* (*must be adopted together)	April 1, 2022
Asset Retirement Obligations (PS 3280)	April 1, 2022
Revenues (PS 3400)	April 1, 2023
Purchased Intangibles (PsG 8)	
Public Private Partnerships (PS 3160)	
Financial Statement Presentation (PS1202)	April 1, 2026
Conceptual Framework	April 1, 2026 proposed

PS 3280 Asset retirement obligations (“ARO”)

Asset retirement obligations – Recognition

- Effective for the 2022 fiscal year.
- A liability should be recognized when, as at the financial reporting date, all of the following criteria are satisfied:
 - There is a legal obligation to incur retirement costs in relation to tangible capital assets (“TCA”);
 - The past transaction or event giving rise to the liability has occurred;
 - It is expected that future economic benefits will be given up; and,
 - A reasonable estimate of the amount can be made.
- Capitalize the ARO and allocate the cost in a rational and systematic manner.
- Accounting treatment to be applied:
 - Fully amortized TCA – Capitalize ARO.
 - Unrecognized TCA – Expense ARO.
 - TCA that is no longer in productive use – Expense ARO.

Asset retirement obligations – Measurement

- Best estimate should include costs directly attributable to asset retirement activities, such as payroll and benefits, equipment and facilities, materials, legal and other professional costs and overhead costs.
- Include post-retirement operations, maintenance and monitoring that are an integral part of the retirement of the TCA.
- Include cost of TCA acquired as part of the asset retirement activity if it has no alternative use.
- Use the best available information at the financial reporting date to form management's best estimate.
- Present value is often the best technique.
- Requirement to review the estimated liability at each financial reporting date and refine the estimate as needed.

Asset retirement obligations – Monitoring

- New regulatory requirements
- New assets identified
- Remediation activities completed
- Actual remediation costs
- Inflation estimate
- Discount rate estimate
- Useful life estimate

PS 3450 Financial instruments

Financial instruments

Measurement and Recognition

- New Section PS 3450 Financial Instruments
- Investments in equities that are traded in an active market are measured at fair value, with changes recognized in operations
- All other financial instruments are carried at cost or amortized cost
- Option to record any financial instrument at fair value – irrevocable election on initial recognition

Financial instruments

Monitoring

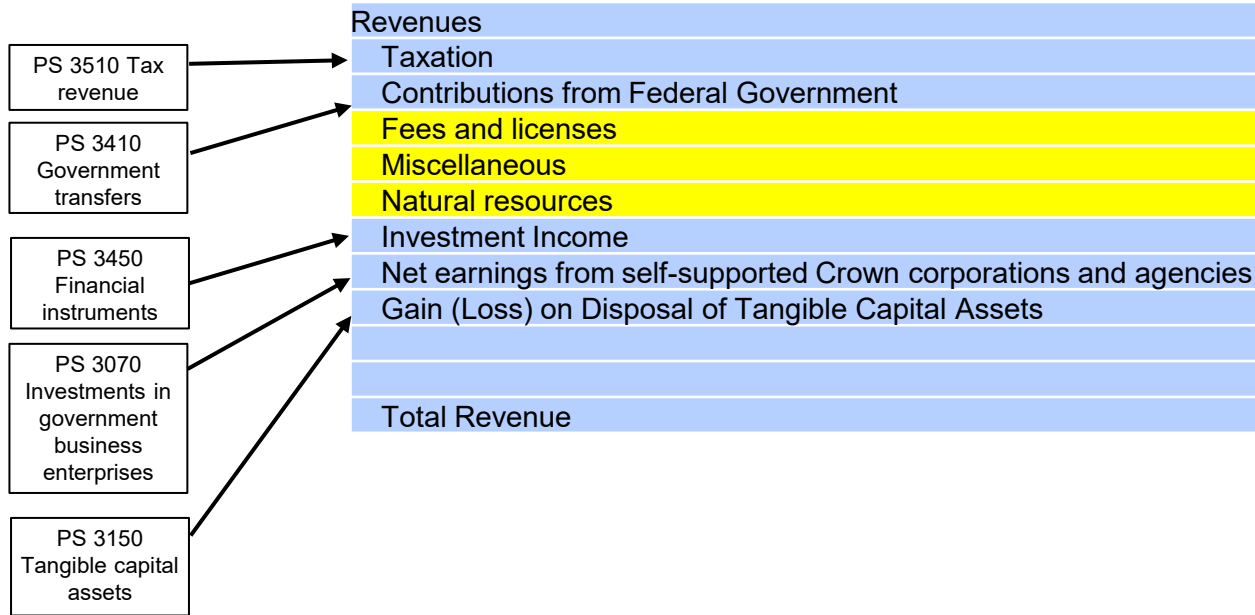
- Irrevocable elections on initial recognition
- Derivatives and embedded derivatives
- Remeasurement gains and losses
- Disclosures – risks and uncertainties

PS 3400 Revenue

Revenue

- General revenue standard.
- Effective for the 2024 fiscal year.
- Excludes areas where there is already specific guidance (e.g. government transfers, restructuring transactions, tax revenue, restricted assets and revenues, financial instruments, contractual rights, etc.).
- Key impacts:
 - Revenue recognition may be accelerated or deferred.
 - Revenue may be recognized at a point in time or over time.
 - New estimates and judgments will be required.

Revenue



Revenue – Monitoring

- Does one or more performance obligation exist in the contract?
- Is there more than one distinct performance obligation?
- Allocate the transaction price to each distinct performance obligation
- Recognize revenue when satisfy the performance obligation by delivering the good or service

PS 3160 Public Private Partnerships

P3s – Key Principles

Based on control of the economic benefits

A public sector entity recognizes infrastructure or a betterment to infrastructure if it controls

- The purpose and use of the infrastructure
- Access to future economic benefits and risks of the infrastructure asset
- Any significant residual interest in the infrastructure at the end of the P3s term

P3s – Key Principles

1. Financial liability model

- Cash payments or a stream of cash payments are made
- Recognized when it needs to pay cash or deliver financial asset

2. User-pay model

- Public sector entity transfers other rights to private sector partner in exchange for infrastructure
- e.g. exclusive right to charge tolls
- Performance obligation is to maintain exclusivity of rights granted

P3s – Monitoring

- Useful life
- Betterments, operating and maintenance expenses
- Payments made
- Performance obligations
- Contract modifications
- New agreements

PS 1202 Financial Statement Presentation

New Reporting Model

Statement of Financial Position as at March 31

	20X3	20X2
Financial assets ¹	XX	XX
Non-financial assets ¹	XX	XX
Total assets	XX	XX
Financial liabilities ¹	XX	XX
Non-financial liabilities ¹	XX	XX
Total liabilities	XX	XX
Net assets (net liabilities)	XX	XX
Net assets (net liabilities) components:		
accumulated surplus/deficit	XX	XX
accumulated remeasurements	XX	XX
accumulated other	XX	XX
	XX	XX

An entity can choose to present the net financial assets or net financial liabilities indicator. The indicator would also need to be presented on the statement of net financial assets or net financial liabilities.

New Statement

Statement of Changes in Net Assets (Net Liabilities) for the year ended March 31

	20X3	20X2
Accumulated Surplus/Deficit		
Surplus (deficit)	XX	XX
Opening balance	XX	XX
Ending balance	XX	XX
Accumulated Remeasurements		
Change in remeasurements ²	XX	XX
Opening balance	XX	XX
Ending balance	XX	XX
Accumulated Other		
Change in accumulated other ²	XX	XX
Opening balance	XX	XX
Ending balance	XX	XX
Total Net Assets (Net Liabilities)	XX	XX

Source: PSAB Visual of the Conceptual Framework for Financial Reporting in the Public Sector

<https://www.frascanada.ca/-/media/frascanada/public-sector/projects/cf-one-pager-2023.pdf?rev=d18cc1c15b394c9f9e726be3e290e56b&hash=BF416821F002BE25B23D222B2827B244>

New Reporting Model

Statement of Operations for the year ended March 31

	Budget	20X3	20X2
Revenue ¹	XX	XX	XX
Expense (by function) ¹	XX	XX	XX
Surplus (deficit)	XX	XX	XX

Requirements for the Budget Presented on the Statement of Operations

- Budget should be presented using the same:
 - basis of accounting;
 - accounting principles;
 - scope of activities; and
 - classificationsas the actual amounts.
- When budget information is not prepared or approved, an acknowledgment stating this fact should be presented, as the budget is a key aspect of the accountability cycle.
- Amended budgets may be used but only in certain specific circumstances when there has been a change in governance.

New
Requirements

Source: PSAB Visual of the Conceptual Framework for Financial Reporting in the Public Sector

<https://www.frascanada.ca/-/media/frascanada/public-sector/projects/cf-one-pager-2023.pdf?rev=d18cc1c15b394c9f9e726be3e290e56b&hash=BF416821F002BE25B23D222B2827B244>

New Reporting Model

Statement of Cash Flow for the year ended March 31

	20X3	20X2
Cash beginning of year	XX	XX
Cash provided by (applied to) operating transactions ¹	XX	XX
Cash provided by (applied to) capital transactions ¹	XX	XX
Cash provided by (applied to) investing transactions ¹	XX	XX
Net cash provided by (applied to) operating, capital and investing transactions	XX	XX
Net cash before financing transactions	XX	XX
Cash provided by (applied to) financing transactions ¹	XX	XX
Cash end of year	<u>XX</u>	<u>XX</u>

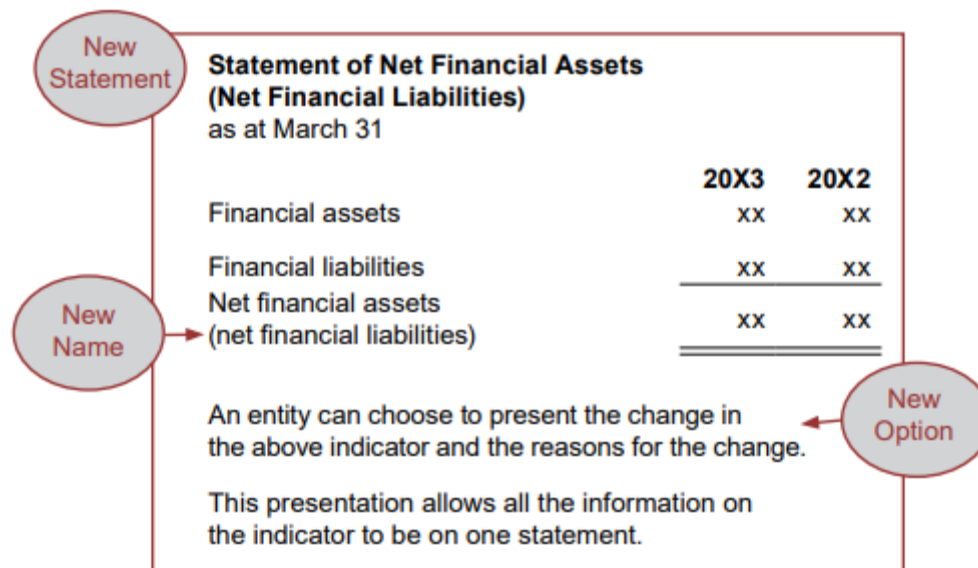
New Requirements

Both the indirect and direct methods are allowed to report cash flow from operations.

Source: PSAB Visual of the Conceptual Framework for Financial Reporting in the Public Sector

<https://www.frascanada.ca/-/media/frascanada/public-sector/projects/cf-one-pager-2023.pdf?rev=d18cc1c15b394c9f9e726be3e290e56b&hash=BF416821F002BE25B23D222B2827B244>

New Reporting Model



Source: PSAB Visual of the Conceptual Framework for Financial Reporting in the Public Sector

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Conceptual Framework

Conceptual Framework

Superseded conceptual framework	PS 1000 Financial Statement Concepts PS 1100 Financial Statement Objectives
New conceptual framework	Chapter 1: Introduction Chapter 2: Characteristics of Public Sector Entities Chapter 3: Financial Reporting Objectives Chapter 4: Role of Financial Statements Chapter 5: Financial Statement Foundations Chapter 6: Financial Statement Objectives Chapter 7: Financial Statement Information Chapter 8: Elements of Financial Statements Chapter 9: Recognition and Measurement in Financial Statements Chapter 10: Presentation Concepts in Financial Statements

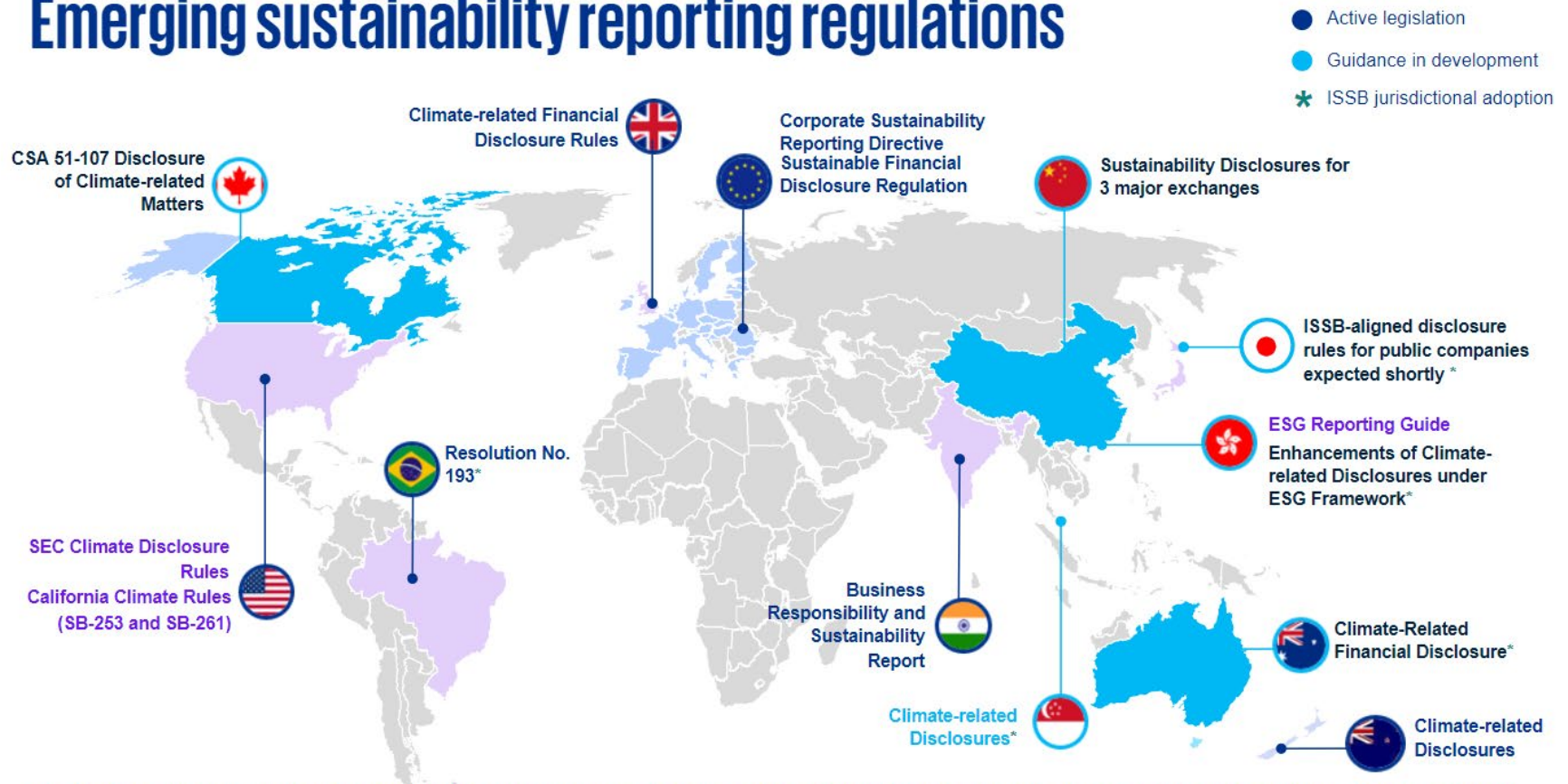
Source: In Brief – A plain and simple overview of the Conception Framework for Financial Reporting in the Public Sector

<https://www.frascanada.ca/-/media/frascanada/public-sector/resources/psab-conceptual-framework-in-brief-en.pdf?rev=906290ef23ae4869b2cc4c22fcae83c2&hash=917107F64332BD53F37641F0A751AC88>



ESG Update

Emerging sustainability reporting regulations



Note: The above is not a comprehensive list of all emerging global sustainability regulations. The above serves as a snapshot of major emerging sustainability and climate-related disclosure regulations as of April 1, 2024.

ISSB standards: The global and Canadian baseline

► S1: The general standard sets the foundation

- General features of sustainability reporting, including materiality
- Core content across the four areas, underpinned by practical guidance, such as location & timing of disclosures

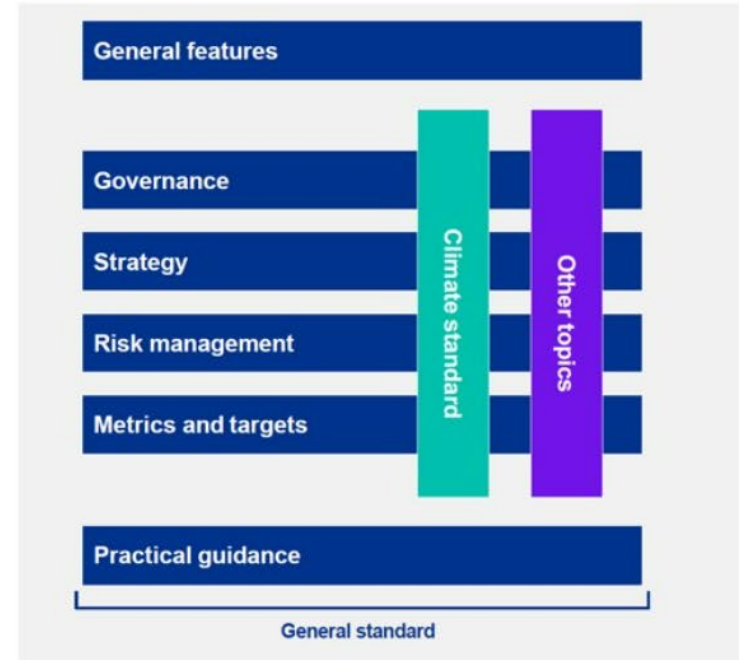
► S2: The climate standard provides additional detail

It builds on the four content areas with additional guidance, particularly in relation to:

- Disclosure of risks, climate transition plans, GHG emissions and scenario analysis; and
- General and industry-specific financial & non-financial metrics.

► Future standards are expected to follow

- Additional standards are expected in the future, providing general and industry-specific guidance on other topics – e.g. biodiversity and human capital
- For sustainability-related risks and opportunities where ISSB guidance is not available, SASB is expected to be used and can be supplemented by other frameworks like CSRD



What will need to be disclosed?

Disclosures focus on matters that are critical to the way a company operates

The general disclosure requirements standard sets out a framework

Governance

Processes, controls and procedures that a company uses to monitor sustainability-related risks and opportunities.

Strategy

Sustainability-related matters that could enhance the business model and strategy over the short, medium and long term.

Risk management

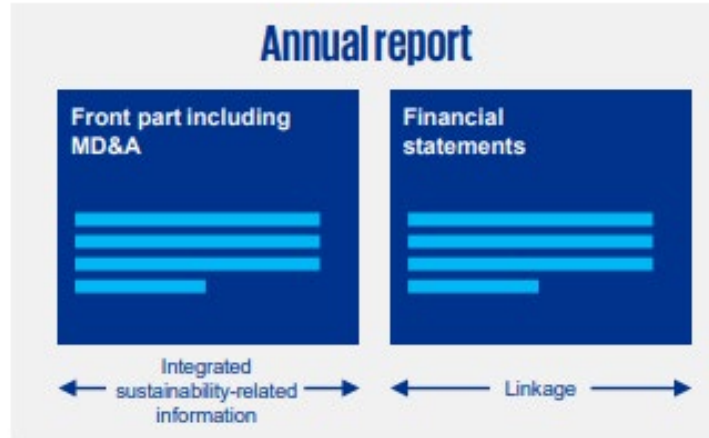
How sustainability-related risks are identified, assessed and managed.

Metrics and targets

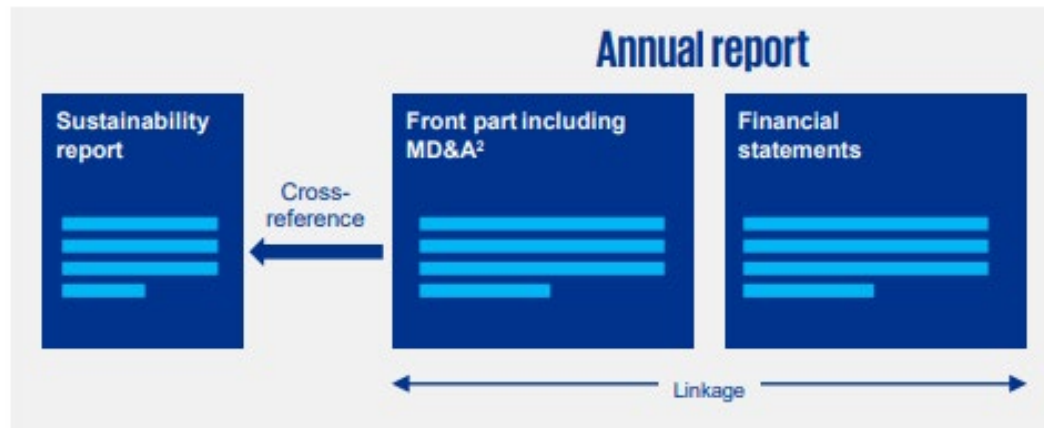
Information to explain the company's performance on sustainability-related matters over time.

Where will information be disclosed?

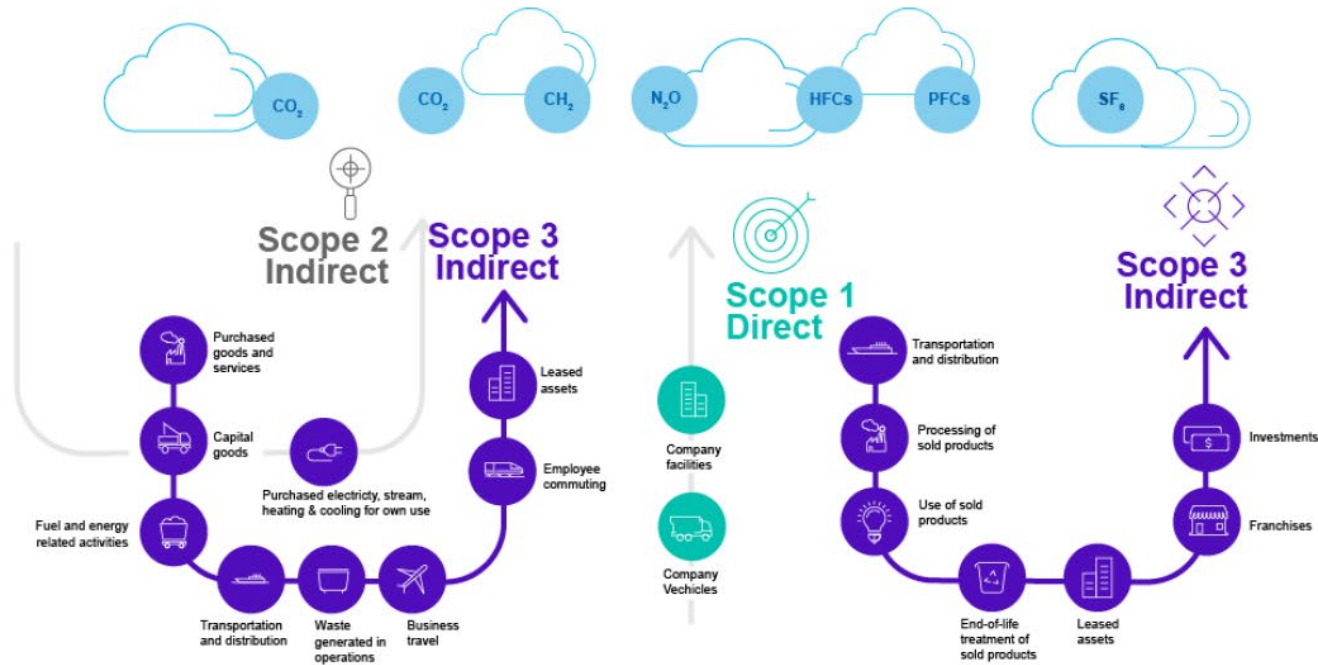
Example 1:
Integration of
information in
management
commentary.



Example 2: Separate report providing sustainability-related information, cross-referenced to and available at the same time and on the same terms as management commentary.



Value chain concepts



- Scope 1:** Emissions from company-owned operations
- Scope 2:** Emissions from purchased electricity, steam, heat, or cooling
- Scope 3:** Emissions from a company's value chain



Source: Environmental Protection Agency. Greenhouse Gases at EPA. [Greenhouse Gases at EPA | US EPA](#)

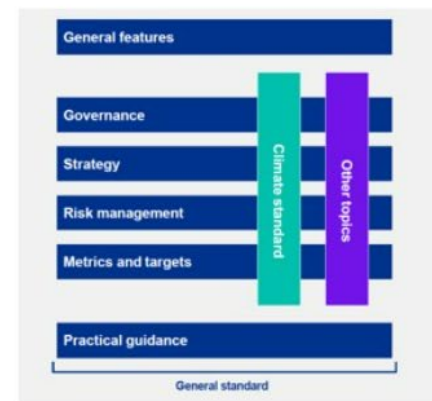
Introducing the CSSB's proposed standards

► CSSB releases first two proposed standards

- Exposure Draft – Canadian Sustainability Disclosure Standard (CSDS) 1, *General Requirements for Disclosure of Sustainability-related Financial Information*
- Exposure Draft – Canadian Sustainability Disclosure Standard (CSDS) 2, *Climate-related Disclosures*

► Alignment with IFRS S1 and S2

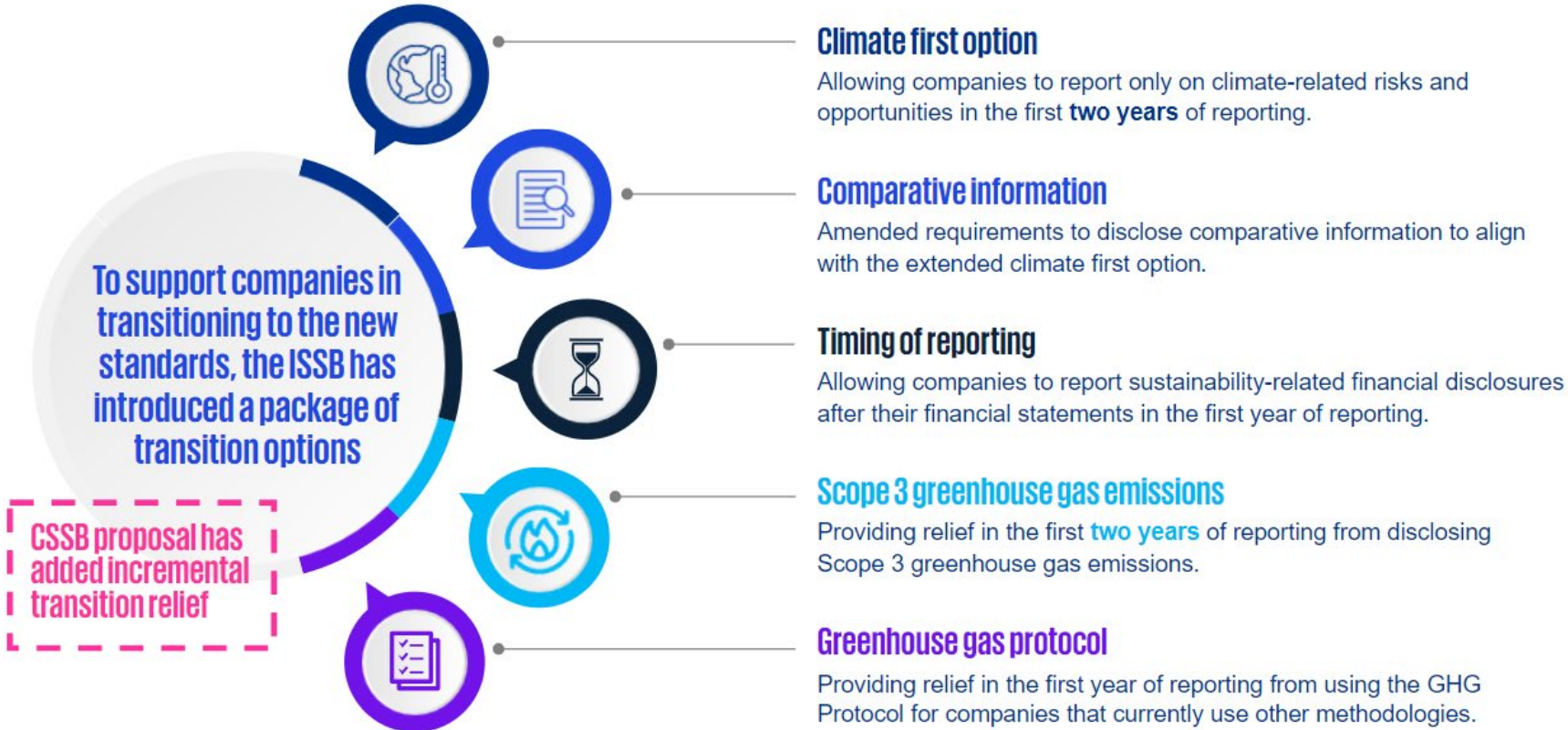
- Proposed CSDS 1 and proposed CSDS 2 are aligned with IFRS S1 and S2 with the exception of a **Canadian-specific effective date** and **incremental transition relief**



Effective date	Reporting period	Connected information	Forward looking	Comparative information
<p>The proposed standards are effective January 1 2025.</p> <p>The proposed standards are voluntary.</p>	<p>Disclose sustainability-related information at the same time* and for the same period as the financial statements.</p>	<p>Sustainability-related financial disclosures need to be connected to the financial statements.</p> <p>Both are included as part of a company's general purpose financial reports.</p>	<p>The standards require forward-looking insight about sustainability-related risks and opportunities that could reasonably be expected to affect the company's prospects.</p>	<p>Comparative information* required for all amounts disclosed in the reporting period, including narrative and descriptive disclosures when useful to investors' understanding of the current period disclosures.</p>

* Subject to proposed transition relief

Transitioning to the new (proposed) standards



Illustrative example – Transition options

Reporting timeline of a company with a calendar year end applying the proposed standards with optional transition relief from January 1, 2025:



The CSSB does not have the mandate to require assurance



Next steps

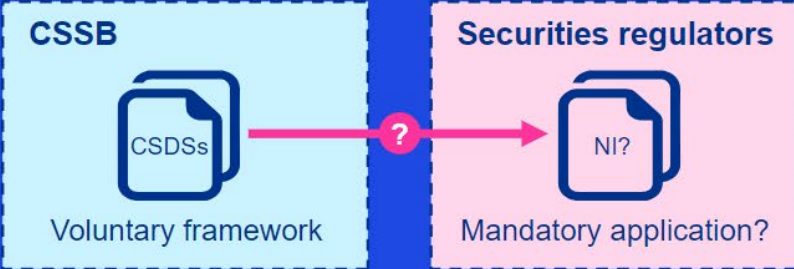
► **CSSB’s consultation process**

- CSSB has given a 90-day consultation period to provide comments on the proposed standards
- Feedback sought on:
 - Scope of proposed general standard
 - Timing of reporting
 - Climate resilience
 - Scope 3 GHG emissions



► **Voluntary application for now**

- The proposed standards would currently be adopted voluntarily
- Canada’s regulators and legislators will determine whether the CSDSs should be mandated, and if so, who will need to apply the standards and over what time frame
- The CSA issued a statement that they will seek consultation on their revised climate-related disclosure rule following the finalization of CSDS 1 and 2





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