ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

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Mr. Puskaric,

Please find enclosed the comments of the Technical working group on the public sector – Public sector accounting of the Ordre des comptables professionnels agréés du Québec on the Exposure Draft, “Financial Statement Presentation, Proposed Section PS 1202.”

We would appreciate receiving a copy of the English translation of our comments.

Please note that neither the Ordre des comptables professionnels agréés du Québec nor any of the persons involved in preparing the comments shall have any liability in relation to their use, and no guarantee whatsoever shall be provided regarding these comments, as specified in the following disclaimer.

Yours truly,

Annie Smargiassi, CPA auditor, CA
Representative of the Technical working group on the public sector – Public sector accounting

Encl. Disclaimer and comments

DISCLAIMER

Subject to the conditions described herein, the documents prepared by the working groups of the Ordre des comptables professionnels agréés du Québec (the Order), hereinafter referred to as the "comments," provide the opinion of the groups on statements of principles, consultation papers, associates' drafts and exposure drafts issued by the Accounting Standards Board, Auditing and Assurance Standards Board, Public Sector Accounting Board, Risk Management and Governance Board, and other organizations.

The comments submitted should not be relied upon as a substitute for engagements entrusted to professionals with specialized knowledge in their field. It is important to note that the legislation, standards and rules on which the comments are based may change at any time and that, in some cases, the comments may be controversial.

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Users of the comments shall take full responsibility for, and assume all risks relating to, the use of the comments. They agree to release the Order from any claim for damages that could result from a decision they may have made based on these comments. They also agree not to mention the working group's comments in the opinions they express or the positions they take.

TERMS OF REFERENCE OF THE WORKING GROUPS

The terms of reference of the working groups of the Ordre des comptables professionnels agréés du Québec are to collect and channel the views of practitioners and members in business, industry, government and education, as well as those of other persons working in related areas of expertise.

For each exposure draft or other document reviewed, the working group members share the results of their analysis. Consequently, the comments below reflect the views expressed and, unless otherwise specified, all of the working group members agree on these comments.

The Order has not acted upon and is not responsible for the comments expressed by the working groups.

GENERAL COMMENTS

Members feel that the proposed changes will require numerous reclassifications and amendments on which public sector entities, many having very little staff, will have to spend much time and effort. Entities required to apply the new financial instrument requirements for fiscal years beginning on or after April 1, 2022 would also have to apply other substantial changes within a two-year span.

Members also feel that the footnotes unnecessarily complicate the proposals. Generally, users of standards material do not look at footnotes when analyzing and implementing a standard. They feel that these items or notes, if considered important for an understanding of the standard, should be explained either in the body of the standard or in the appended application guidance, and not in a footnote.

PSAB'S SPECIFIC QUESTIONS

1. Do you agree with the proposed new financial statement presentation standard?

Members had mixed responses to the question. They made comments and raised issues about certain paragraphs in the proposals, as discussed below.

DEFINITIONS

Financial liability and non-financial liability

First, members feel that including definitions that are different from definitions in other Canadian generally accepted private sector accounting frameworks is an issue in itself. For example, they said that university teaching is based on international standards and that inconsistencies in basic concepts such as definitions in these generally accepted frameworks will lead to misunderstandings in practice and a risk of errors. With respect to members in practice, they must navigate among the frameworks applicable to their varied clientele, and very few specialize in public sector standards. Navigating these different frameworks is an issue that is amplified by inconsistency in basic concepts such as definitions.

However, members believe that there must be some differentiation from the private sector and wonder if it would not be better to clarify the differences by using words and expressions that differ from the ones used in private sector accounting frameworks. They explained with an example: the expression “financial instrument liability” in the proposals corresponds to “financial liability” in other Canadian generally accepted accounting frameworks, whereas the expression “financial liability” corresponds to a completely different concept in the proposals. As a result, these concepts are very difficult to understand because the terms used are too similar.

In addition, members are not comfortable with the differences in the definitions of “financial liability” and “non-financial liability,” the first being based on the fact that it “**is expected** to be settled using financial assets,” whereas the second “**cannot** be settled through the use of financial assets.” Members consider that the entity always has discretion to settle a liability using financial assets or not, and that, over time, such decisions can change from the initial plans. They believe that the definition of a non-financial liability should be more consistent with the definition of a financial liability, and suggest changing the definition as follows:

Non-financial liability: liability ~~that cannot be settled~~ that is expected to be settled~~through the use of financial assets but only~~ through the use of non-financial assets or economic resources excluded from recognition as noted in paragraph PS 1202.071. A non-financial liability does not represent a future financial resource requirement. Non-financial liabilities include but are not limited to non-financial performance obligations.

Members also analyzed their understanding of the definition and the proposed concept with the explanations and examples in the appendices to the Exposure Draft. They wondered about "unearned revenue" presented in financial liabilities in these examples. In their view, unearned or deferred revenue is not typically settled using financial assets, but through one or more non-financial performances. They do not understand why these items were not presented in non-financial liabilities rather than in financial liabilities.

GENERAL PRESENTATION PRINCIPLES

Fair presentation

In their comment letter on the Conceptual Framework Exposure Draft, sent separately from this letter, members said they were not comfortable with the proposals in paragraph 10.25 of the Conceptual Framework. Under this paragraph, a public sector entity must disclose whether certain additional information presented in the financial statements is or is not in compliance with the applicable accounting framework, and this requirement was carried forward to paragraph .020 of proposed Section PS 1202.

Below they have reproduced their comments on the Exposure Draft on the Conceptual Framework:

"Members disagree with the guidance in paragraph 10.25. The requirement to disclose whether information in the financial statements is or is not in compliance with the standards is not the responsibility of the entity preparing the financial statements and should not be included in the conceptual framework of the accounting standards. This is the responsibility of the auditor, who will determine the impact of the non-compliance and report the conclusion in the audit report. Instead, members suggest adding to Chapter 7, Financial Statement Information: Qualitative Characteristics and Related Considerations, the concept of fair presentation found in IFRS (specifically IAS 1

Presentation of Financial Statements), paragraphs of which are reproduced below. However, they admitted that they have never encountered this situation in practice.

> *19* In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.
>
> *20* When an entity departs from a requirement of an IFRS in accordance with paragraph 19, it shall disclose:
>
> *(a)* that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;
>
> *(b)* that it has complied with applicable IFRSs, except that it has departed from a particular requirement to achieve a fair presentation;
>
> *(c)* the title of the IFRS from which the entity has departed, the nature of the departure, including the treatment that the IFRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, and the treatment adopted; and
>
> *(d)* for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

Members also feel that additional disclosures outside the requirements of the applicable accounting framework should be discussed, and guidance included to the effect that such information is not required and is not part of the financial statements."

They recommend that paragraph .020 of proposed Section PS 1202 take these considerations into account.

Materiality

Members agree with the concept, but would have preferred to see materiality either included in the definitions, as in paragraph 1.7 of IAS 1, or that reference be made to paragraphs 7.40 to 7.44 of the Conceptual Framework.

Aggregating

Members feel that the last sentence in paragraph .032 is confusing in view of the concept of “materiality” in paragraph .031. According to the concept in paragraph .031, immaterial items do not normally require additional note disclosures. For members, this last sentence of paragraph .032 could compromise the usefulness of additional information and needlessly multiply note disclosures on immaterial items.

MEETING THE FINANCIAL STATEMENT OBJECTIVES

Statement of financial position

Members noted that the section on the statement of financial position repeatedly refers to the Conceptual Framework. The proposed new Conceptual Framework states that this framework is not part of GAAP. Thus, the reference to this framework is confusing and members wonder which takes precedence: the Conceptual Framework or the presentation standard?

Furthermore, members are aware that national and international discussions on the recognition of natural assets are underway and feel that PSABshould undertake a project or discussions along these lines. According to members, paragraphs .071 and .072 may have to be amended in the near future.

Statement of financial position – Financial and non-financial liabilities

Members feel that the notion of non-financial liability in the public sector, which differs from the notion in other Canadian accounting frameworks, is difficult to understand with the examples in paragraphs .081 to .083 and the model statements of financial position in the appendices. In their view, the proposed standard provides neither an example nor an explanation of when unearned revenue would be presented as part of non-financial liabilities and they feel this is needed to fully understand the concepts. Members provided examples of situations (below) in which they find it difficult to conclude that there is a financial liability:

- A municipality rents a piece of land to a soccer club for rent paid at the beginning of the lease agreement. Soccer lessons are also offered by the municipality. In this situation, members would have concluded that the provision of services under the agreement would be a settlement using non-financial assets, which for them means recognizing a non-financial liability. According to the members, under proposed paragraphs .081 to .084 and paragraph .086, a financial liability would be presented instead. This does not seem logical to them.
- A public sector organization offers yoga classes. Fees collected upon registration are deferred and recognized in revenue over time. For members, the provision of services would not mean the obligation is settled using financial assets, but rather using non-financial assets such as capital assets. Here too, the wording of paragraphs .081 to .083 and paragraph .086 does not help to clarify the differences between a financial and non-financial liability.
- Also, in the view of members, not all amounts collected are refundable customer deposits and not all performance obligations are financial obligations.

They think that the requirements and examples, along with the related explanations, should be reviewed and clarified.

Members also raised questions about subparagraph .087(c). They wonder what they should refer to in this type of situation. They feel that this subparagraph brings even more into question the treatment of a liability partially settled in cash.

Statement of net financial assets or net financial liabilities

First, members feel that the requirement in paragraph .102 has no place in a financial statement as such. Normally, elements of financial statements are neither explained in the financial statements themselves nor in note disclosures because users are supposed to be sophisticated users. If this element has to be explained, others might have to be as well. They also feel that this requirement might weigh down the statement and end up being nothing more than a boilerplate note adding little value. If PSAB decides to retain the requirement, they suggest that the explanations rather be presented in the notes to the financial statements. Members feel that other information not required by the proposals would be more useful, for instance, significant judgments underlying the application of the standards.

Members believe that the terminology used for the statement of change in net financial assets or net financial liabilities may create confusion with the statement of net financial assets or net financial liabilities and the statement of changes in net assets or net liabilities. This optional statement may be misunderstood by users in general and confused with the statement of changes in net assets or net liabilities. Members feel that moving towards a model that differs from the basic IFRS reporting model increases the risk of misunderstanding.

Statement of operations

Members noted that the terminology for the statement of operations has been changed since the Statement of Concepts, and said that paragraph .115 should be amended accordingly. Thus, "statement of surplus or deficit" should be replaced by "statement of operations."

Members feel that a situation very common to many public sector entities, including public sector NFPOs, was left out of paragraphs .117 to 121 of the proposals. Indeed, if an organization only has a single function or program, the statement of operations should, they feel, be presented directly by object. Presentation by program in the statement of operations and presentation of expenses by object in note disclosures are inappropriate in these circumstances, which should be analyzed in the proposals.

Statement of changes in net assets or net liabilities – Share capital

Members consider that the title of this section and the wording used in the financial statement should specify that this is **issued** share capital. There is a fundamental difference between issued capital and authorized capital and members think it is important to clearly specify this fact in all paragraphs in this section and in the financial statement itself.

In response to paragraph BC.145 of the Basis for Conclusions, members feel that it should not be difficult to distinguish issued share capital from seed capital funds for public sector organizations.

Option to report the reasons for the change in net financial assets or net financial liabilities

Members consider that additional information not required by an accounting framework is seldom presented in practice in the financial statements. Also, according to them, nowhere do the standards prohibit the inclusion of additional information if it improves users' understanding of the statements. Therefore, they think that paragraphs .152 and .153 should be removed.

If PSAB retains these paragraphs and the option of presenting a schedule of changes in net financial assets or net financial liabilities, members feel that additional, more detailed explanations should be provided on the presentation of comparatives, specifically because this schedule is optional. Members are unsure whether the schedule should only show amounts for the current period or amounts for the current period and comparative figures, and whether paragraph .033 applies in this context.

Statement of cash flow

According to members, the objective of paragraph .165 is not achieved if the indirect method is used. They also feel that this is the most commonly used method in practice. They think this paragraph is unnecessary.

They also disagree with the example of transfer payments quoted in paragraph .167(g) because, in their view, it is impossible to conclude that past transfer payments can be used to predict future cash flows.

Members questioned the reason for the requirement in paragraph .170, i.e. additional disclosure on the difference between interest expense or revenue and cash flows arising from interest. They said that there are many other items for which the amount recognized in income differs from the amount presented in the statement of cash flow, and they question why this requirement should exist solely for interest. Members think this requirement should be removed.

Members wondered about the scope of paragraph .176. They are unclear as to whether the first sentence in this paragraph refers to financing and fundraising activities as organized by not-for-profit organizations, or rather to financing activities that are normally presented in a separate section of the statement of cash flow. In general, public sector entities other than public sector NFPOs do not carry out financing activities, but present financing activities in their statement of cash flow. They feel that the choice of words and expressions is key to a good understanding.

Members noted differences from IPSAS in statement of cash flow disclosures and would like to know why these differences were retained in the proposals because, in their view, these disclosures should have been included in the proposed section. For example, IPSAS 2 – *Cash flows statements*, requires that cash flows relating to foreign currencies be presented separately in the statement of cash flow (paragraphs .36 to .39). Similarly, IPSAS 2 requires separate presentation of cash flows from interest, dividends and other distributions (paragraphs .40 to .43).

Members also noted diversity in practice relating to the sections under which certain cash flows are presented and feel that diversity in practice indicates a need to add clarifications to the proposed chapter. The differences noted are as follows:

- For cash flows from partnerships, some include them under the "investing" heading while others use "financing";

- Some present reserved or restricted cash amounts in cash and cash equivalents, whereas others present them as investing activities.

Disclosing non-compliance with financial authorities

Members consider that the financial statements are not the right place to indicate whether economic resources entrusted to a public sector entity have been managed in compliance with financial authorities. In their view, the conclusion does not necessarily impact the financial statements as such. Thus, they consider that paragraphs .202 to .204 of the proposals should be removed. They refer to the comments they made in their response to the Exposure Draft on the Conceptual Framework, reproduced below:

> *"….* a number of non-compliance disclosures are found in annual reports or MD&As, but not in the financial statements themselves. Members provided examples of situations that do not affect the financial statements per se, including appropriations approval, situations in which an entity presents a deficit even though this type of entity is prohibited by law from running a deficit, and overspending during the year which is settled by year-end.
>
> Assurance standards also provide for specific compliance engagements and reports to be issued in situations where an authority requests an auditor to provide an opinion on compliance.
>
> In view of these issues, members believe that only legislative authorities applicable to financial statements should be covered in this Chapter, specifically in paragraphs 3.29 and 3.30…*"*

REPORTING ON FUNDS AND RESERVES

Some members wonder if it is worth keeping Public Sector Guideline (PSG) 4 Funds and Reserves. They feel that if the requirements of proposed Section 1202 allow relevant subtotals to be presented in the financial statements, there is no need to maintain PSG-4 in effect or to prohibit certain presentations. These members recommend adjusting PSG-4 as the strategy for GNFPOs evolves.

Other members feel that caution should be used when it comes to presenting subtotals in the financial statements and that these statements should not present non-GAAP measures. These members say that certain reserves and internal restrictions often attract media attention. They are concerned that having too many subtotals may impair users' understanding of the financial statements.

APPENDICES – ILLUSTRATIVE FINANCIAL STATEMENTS

According to members, the examples in the appendices are all too similar.

They would have liked these examples to contain other items such as:

- A note in situations where a budget is not presented;
- Other disclosures required in the statement of cash flow;
- Unearned revenue classified in non-financial liabilities;
- Externally restricted assets other than perpetual endowments, which should be classified in non-financial assets;
- Non-financial liabilities to be settled by other than financial assets.

They would also have liked Appendix F to include figures (as in Appendices A to E), to help them understand the relationships between the schedules.

2. Do you agree with the effective date of April 1, 2024, to implement the financial statement presentation standard, Section PS 1202?

A number of Quebec ministries require public sector entities, including entities from the Health and Social Services network and Municipal Affairs, to present their financial statements on special platforms with potentially complex programming requirements.

The members consulted representatives of the ministries affected by the changes and some are asking for at least 24 months between the issue date and the effective date of the final standard in order to be able to make the necessary changes on their respective platforms. Also, as pointed out in the general comments, many entities will have to apply the financial instrument standards for fiscal years beginning on or after April 1, 2022, which will be no small task.