

PSAB's International Strategy Update

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Slide 1 – PSAB's International Strategy Update

Thank you for tuning into PSAB's webinar. We are excited to provide you with an update on one of PSAB's most strategic undertakings, its International Strategy project. This project was completed in 2020, and in the past year, PSAB has been working hard to implement the decisions made.

Slide 2 – Presenters

I am Clyde MacLellan, Chair of the Public Sector Accounting Board. I am here with Michael Puskaric, the Director of the Public Sector Accounting Board. Together we will be giving you an update on the work we've done since our International Strategy decision in 2020.

Slide 3 – Agenda

We will start off with a refresher on what the International Strategy decision was, and what it means for standard-setting and financial reporting in the Canadian public sector moving forward.

Next, we will talk about the implementation activities PSAB has worked on since 2020 which includes:

- An explanation of the changes PSAB made to its GAAP Hierarchy in Section PS 1150 *Generally Accepted Accounting Principles*;
- Information on where to find the French translation of the IPSAS, as well as an IPSAS-PSAS comparison document that stakeholders requested;
- Information on PSAB's planned responses to IPSASB documents for comment in the 2021-2022 fiscal year; and
- Background on other international influence activities that have been introduced by PSAB since the International Strategy decision.

This webinar will also walk you through our upcoming international activities, including the extensive consultation work we have planned on IPSASB's Natural Resources project.

Finally, this webinar will also provide you with some information on the international activities being undertaken by PSAB, and other Canadian standard setting boards.

Slide 4 – International Strategy Decision

Without further ado, let's talk about the International Strategy decision that was made.

Slide 5 – International Strategy Decision

On May 5, 2020, PSAB voted to approve “Option 2 – Adapt IPSAS principles when developing future standards” as its future International Strategy. We landed on this decision after extensive consultations with Canadian stakeholders and careful consideration of the International Strategy decision-making criteria. While the decision was made on May 5, 2020, the option was formally adopted in Canada for the fiscal year beginning April 1, 2021. For those of you who are interested, the reasons behind the decision and the change can be found in the Basis for Conclusions document on PSAB's International Strategy Project page.

Slide 6 – International Strategy Decision

So, what does Option 2 mean exactly? What does it mean to adapt IPSAS principles when developing PSAS standards? Under the new International Strategy decision, PSAB will continue to develop PSAS standards, but future standards would be based on the principles in existing IPSAS. If a Canadian project is undertaken and an IPSAS already exists, the principles of that IPSAS standard would be used as a base for developing the PSAS.

PSAB's “Criteria for Modifying Principles” document would provide guidance on when the Board can make changes to IPSAS principles, as well as the extent of deviations permitted. One example of a permitted deviation is if an IPSAS principle in a standard under consideration was contrary to PSAB's conceptual framework and financial reporting model, a deviation from that IPSAS principle would be permitted in the development of PSAS.

Moreover, under the new International Strategy decision, PSAB would continue to develop PSAS standards. However, there would be prospective application of the new International Strategy to future standards. Under this decision, PSAB would continue to independently:

- develop and set its own technical agenda;
- develop its strategic plan;
- complete its project identification and prioritization surveys;
- determine which standards are developed; and
- follow its own due process.

Slide 7 – International Strategy Decision

Under its new International Strategy, PSAB would continue to use its own conceptual framework and financial reporting model. However, the decision would be implemented for new projects undertaken on or after April 1, 2021.

It is expected that as PSAB takes on more standards projects, this new International Strategy will play a role in how principles in those standards projects are developed.

Given that future PSAS will be developed based on IPSAS principles, this International Strategy decision also requires PSAB to be more involved in influencing activities at the international level, than in the past. More details on this will be provided later in the webinar.

Slide 8 – International Strategy: In Practice

So how would the new International Strategy work in practice?

Well, moving forward, when PSAB begins a new standards project, the first step will be to determine if a similar IPSAS standard exists.

If a similar IPSAS standard does exist, PSAB would review the principles of the IPSAS. It would determine if any of the principles need to be modified in accordance with the Criteria for Modifying IPSAS. It would then finalize the principles to be used in the PSAS standard, including any IPSAS principle that require modification.

If a similar IPSAS standard does not exist, PSAB would simply develop the principles to be used in the PSAS standard.

Slide 9 – Implementation Activities

With the International Strategy decision in effect since April 1, 2021, several implementation activities have been undertaken to ensure the transition to the new strategy was as smooth and seamless as possible. While implementation of the strategy is an ongoing process, we'll spend a bit of time now going over what PSAB has done to effectively apply this new strategy.

Slide 10 – GAAO Hierarchy Update

One of the largest changes since PSAB's International Strategy decision on May 5, 2020, was the update to PSAB's GAAP hierarchy as outlined in Section PS 1150, *Generally Accepted Accounting Principles*.

Prior to April 1st of this year, PSA Handbook outlined several sources, in no order, that could be consulted on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances. There was no specific hierarchy previously outlined of these alternative sources of guidance. The alternative sources included accounting pronouncements published under the authority of the Canadian Accounting Standards Board, International Accounting Standards Board (IASB), U.S. Federal Accounting Standards Advisory Board (FASAB), U.S. Governmental Accounting Standards Board (GASB) or the IPSASB.

With the change to its International Strategy, PSAB has updated the GAAP hierarchy in Section PS 1150, *Generally Accepted Accounting Principles*, to position IPSAS as the first accounting framework to consult among pronouncements issued by other bodies authorized to issue accounting standards. This was done after extensive consultation with stakeholders and the issuance of an exposure draft on the topic.

To be clear, the intent of this change is not that public sector entities change all its accounting policies and adopt IPSAS for any topic not yet addressed in PSAS. The intent was merely to identify the IPSAS as the first source to consult when a public sector entity is developing a new accounting policy on a topic not

yet addressed by PSAS. With this, should PSAB in the future develop a standard on the topic that leverages the principles in an IPSAS, an entity may not have to adjust its accounting policy.

It should be noted that while IPSAS pronouncements are to be consulted first, it is PSAB's intention that Canadian stakeholders can use their professional judgment and consult pronouncements by other standards setters, if, in their view, the IPSAS pronouncement is:

- not suited to the Canadian environment;
- not consistent with PSAB's Conceptual Framework or other primary sources of GAAP; or,
- not the most relevant in the circumstances.

Slide 11 – GAAP Hierarchy Update – How Would this Work in Practice?

So, how would this change work in practice?

The first step is that a public sector organization determines that it needs guidance on a matter not covered by a primary source of PSAS, or assistance in applying a primary source of PSAS to their specific circumstances.

Once this has been determined, the next step is look to IPSAS first for guidance on the matter, consistent with the updated GAAP Hierarchy.

The organization can look to other sources if IPSAS pronouncements are:

- not suited to the Canadian environment;
- not consistent with PSAB's conceptual Framework or other primary sources of GAAP, or
- not the most relevant in the circumstance.

In these cases, PSAB may look to other sources listed in the GAAP hierarchy. These include pronouncements published by the Canadian Accounting Standards Board, International Accounting Standards Board (IASB), U.S. Federal Accounting Standards Advisory Board (FASAB), U.S. Governmental Accounting Standards Board (GASB).

Slide 12 – French Translation and IPSAS-PSAS Comparison

In addition to updating its GAAP Hierarchy to outline the requirement to consult IPSAS first when PSAS is silent, PSAB also made various resources available to stakeholders to ensure the implementation of the International Strategy decision was as smooth as possible.

First, PSAB shared the French translation of 2018 Handbook of International Public Sector Accounting Pronouncements, the most recent French translation of IPSAS, on its International Activities page of the FRAS Canada website. In their feedback to PSAB on the change in GAAP hierarchy exposure draft, some stakeholders expressed concern with the lack of a French version of the IPSAS handbook and noted that this may result in difficulties in applying IPSAS as a secondary source of GAAP in Canada. By making a French version of the IPSAS handbook available on our website, PSAB hopes to make it easy for all stakeholders across Canada to review IPSAS, and to ease the implementation of the International Strategy decision.

Second, PSAB updated an IPSAS-PSAS Comparison, first done in 2018, and shared the comparison on the International Activities page of the FRAS Canada website. In their feedback to PSAB on the change in GAAP hierarchy exposure draft, some stakeholders expressed some concern over the lack of IPSAS-PSAS comparison available for stakeholders. As a result, PSAB has updated a high-level version of the IPSAS-PSAS comparison document, which was first made available in 2018 as part of the first consultation paper on the project. By making an updated IPSAS-PSAS comparison available, PSAB hopes it will act as a starting point for stakeholders in understanding the key differences and similarities between IPSAS and PSAS and will make the implementation of the International Strategy decision easier.

Slide 13 – Board Responses to IPSASB Documents for Comment

One of the largest changes due to PSAB's update of its International Strategy is the Board's process of response to IPSASB documents for comment. In the past, PSAB staff would respond to select IPSASB documents for comment. However, as part of the International Strategy decision, PSAB decided it would formally respond to all IPSASB documents for comment that are relevant to the Canadian environment. As future PSAS standards may be based on IPSAS principles, it was important for PSAB to ensure the Canadian perspective is heard in the development of future IPSAS.

As a result of this change, PSAB has reviewed IPSASB's Work Program for the 2021-2022 fiscal year and determined which documents it will respond to, and the level of consultation required for each document.

Slide 14 – Board Responses to IPSASB Documents for Comment

At the beginning of the fiscal year, PSAB decided it will respond to several IPSASB documents for comment. These projects were chosen based on their importance to the Canadian public sector, as well as PSAB's ability to influence the outcome of the consultation, based on the stage of the project.

The projects that PSAB has chosen to respond to in fiscal 2021/2022 are:

- ED 76, Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements;
- Exposure Draft, Conceptual Framework – Limited Scope Update – Next Stage;
- ED 77, Measurement;
- ED 78, Property, Plant and Equipment;
- ED 79, Non-Current Assets Held for Sale and Discontinued Operations;
- Consultation Paper, Natural Resources (this paper has been delayed until March/April 2022, but we'll be discussing more about this project in a few minutes); and the
- Consultation on the Mid-Period Work Program.

PSAB is of the view that responding to international documents for comment is becoming increasingly important as Canada looks to leverage IPSAS principles in the development of future PSAS. It is important to make sure that the development of future IPSAS considers Canadian input and circumstances. Which is why, moving forward, the Board will provide feedback on most IPSASB documents for comment, especially those on topics relevant to Canada. For most responses, PSAB will ask stakeholders to send all feedback to PSAB at least two weeks ahead of the IPSASB deadline so that

PSAB can consider Canadian stakeholder responses when finalizing its own response. This way PSAB will have a better chance of having a consistent Canadian voice at the table.

For topics that are of particular importance to Canadians, PSAB may conduct outreach with stakeholders to hear their feedback. This would be done through targeted meetings and roundtable discussions. Stakeholders interested in reading Canadian responses to IPSASB documents for comment will be able to find them on PSAB's International Activities page.

Moving forward, at the start of every fiscal year, the Board plans on evaluating which expected IPSASB documents for comment and exposure drafts it will respond to, and then allocate resources to developing the responses, keeping in mind the Canadian perspective.

Slide 15 – Other International Influence Activities

Finally, PSAB has worked on other implementation activities associated with its International Strategy decision. PSAB has implemented several additional ways for PSAB to ensure that the Canadian perspective is heard and considered by IPSASB as it develops projects:

- First, PSAB staff provides briefings to the Canadian IPSASB members and technical advisors ahead of any IPSASB meetings. The member briefings focus on topics that are on the IPSASB meeting agenda that are important to Canada, and provide the Canadian IPSASB member, Renee Pichard, and the Canadian Consultative Advisory Group Member, Janique Caron, with the Canadian perspective on these agenda items so that they can be shared at the upcoming IPSASB meetings. While the member briefings themselves are not new, they have been enhanced to also include IPSASB's virtual check-in meetings. As a result, PSAB staff provide briefings up to 8 times a year to Canadian IPSASB members, which helps ensure the Canadian perspective is being heard. Canada is not guaranteed a seat on the IPSASB, but Canadian input on standard setting is valued on the international stage. CPA Canada will always seek to refer high quality candidates to IFAC for IPSASB membership whenever there is an opening on the Board.
- Moreover, as part of the new International Strategy decision, PSAB's Chair attends some IPSASB Board meetings and provides periodic updates to PSAB. This was done to help ensure that PSAB has a strong understanding of IPSASB's activities and discussions, as they may have an impact on future Canadian projects and standard-setting activities.
- PSAB has also chosen to start inviting the Canadian member of IPSASB, Renee Pichard, to select PSAB meetings where IPSASB-related activities are discussed. This again was done to enhance PSAB's international influence activities, but also to ensure PSAB members would have the opportunity to discuss and get feedback from an IPSASB member before making International Strategy related decisions.

Slide 16 – Other International Influence Activities (continued)

- PSAB has also scheduled quarterly meetings between the PSAB and the IPSASB Board Chairs, as well as senior staff of both Boards. This again was done to enhance the collaboration between both boards, strengthen the working relationships, and to discuss issues that are important from both a Canadian and International perspective.
- Finally, PSAB also hopes to increase staff contact between PSAB and IPSASB, and have staff engage and participate in IPSASB project groups when the time comes.

Taken together, all these activities, from updating the GAAP hierarchy, to the Board formally responding to IPSASB documents for comment, to increased collaboration between PSAB, IPSASB and both Boards' staff, have all been implemented to help ensure the successful implementation of the International Strategy decision.

Slide 17 – Upcoming IPSASB-related Activities

PSAB also has number of IPSASB-related activities planned, particularly around, IPSASB's Natural Resources or Natural Assets project.

Slide 18 – Natural Resources

As many of you are aware, the accounting for Natural Resources or Natural Assets is an increasingly important topic here in Canada and abroad. Many users and stakeholders of public sector organizations are becoming increasingly vocal about the need to track these resources in the financial statements as a way of holding organizations accountable for the resources they are responsible for and use. At present, PSAS only requires public sector organizations to record purchased natural resources in their financial statements. Inherited natural resources are excluded from recognition for pragmatic reasons. However, given Canada's vast natural resources or natural assets, the IPSASB project on natural resources is of particular importance to Canadian stakeholders, and one in which PSAB feels strongly that the Canadian perspective needs to be heard.

At present, IPSASB's Natural Resources consultation paper is expected to be released in March/April 2022. Given the importance of this consultation, PSAB will be translating the consultation document to French so that French-speaking stakeholders can read and respond to IPSASB.

PSAB will be developing a response to the consultation document and will hold five roundtables to get feedback from a wide variety of stakeholders on this topic. There will be three English-speaking roundtables, based on type of public sector organization. There will be one roundtable for Federal and Provincial Comptrollers and Auditor Generals, one roundtable for municipalities and one roundtable for all other public sector organizations. There will also be two French Roundtables for all French-speaking stakeholders.

PSAB plans on using the feedback received at the roundtables to develop its response to IPSASB on this topic. And, as with all IPSASB documents for comment on a go-forward basis PSAB will ask Canadian stakeholders to send in their own responses to IPSASB, copying PSAB on their input.

Slide 19 – Other International Activities

In addition to working on implementation activities associated with the International Strategy Decision, there are several other global initiatives that involve Canadian standard-setting boards that are worth mentioning.

Slide 20 – Response to International Financial Reporting for Non-Profit Organizations (IFR4NPO) Consultation Paper

One project PSAB has been following closely is the International Financial Reporting for Non-Profit Organizations (or IFR4NPO) Consultation Paper. In January 2021, the Chartered Institute of Public Finance and Accountancy (CIPFA) and Humentum issued the consultation paper as part of its global initiative to develop non-authoritative reporting guidance for not-for-profit organizations (NFPOs) in jurisdictions that, unlike Canada, do not have NFPO accounting standards.

The IFR4NPO project objectives are to:

- improve the quality, transparency, and credibility of NPO financial reports;
- support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users; and
- address specific NPO issues, which will promote increased comparability of NPO financial reports.

The IFR4NPO Consultation Paper is divided into two parts:

- Part 1 – which describes the general landscape issues of the sector; and
- Part 2 – which describes specific issues NPOs to be addressed.

PSAB has developed and submitted a response addressing Part 1 of the Consultation Paper only. The Accounting Standards Board (AcSB) has also responded to Part 1 of the Consultation Paper. Responding to this consultation paper was significant to PSAB and Canada because responses will be used in the development of international reporting guidance for NFPOs. Responding with the Canadian perspective can help ensure greater consistency between Canadian standards and those that are developed by CIPFA and Humentum in the future.

Slide 21 – New International Sustainability Standards Board (ISSB)

Another project that Canadian standard setters and CPA Canada is active in internationally is the new International Sustainability Standards Board (ISSB). For those of you who may not be aware, the IFRS Foundation is looking to establish an International Sustainability Standards Board (ISSB) that will develop global sustainability reporting standards.

Canada has submitted a bid to host the headquarters of the ISSB. Led by CPA Canada, the initiative has the support of the Government of Canada, accounting firms, pension plans and large corporations. This includes providing funding to provide the startup and operational requirements of the newly developed Board.

CPA Canada, PSAB, and the rest of the Canadian accounting standard setters are excited about the opportunity to headquarter this new Board. The IFRS Foundation is expected to announce its decision on the headquarters of the ISSB in November at the United Nations Climate Change Conference of the Parties.

Slide 22 – Questions?

We are at the end of our presentation. We hope you found it informative, and that it adds greater clarity on PSAB's International Strategy decision and what it means for PSAB moving forward. We'll now open the floor to any questions.